

ALFRED DUMA LOCAL MUNICIPALITY



VIREMENT POLICY

2018/2019

1. Definitions

1. **“Accounting officer”** means the Municipal Manager of Alfred Duma local Municipality.
2. **“Executive Director Finance (CFO)”** means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the Executive Director Finance (CFO).
3. **“Capital budget”** this is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.
4. **“Council”** means the council of Alfred Duma Local Municipality.
5. **“Financial year”** means a 12-month year ending 30 June.
6. **“Line item”** an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditure.
7. **“Operating budget”** The Municipality’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.
8. **“Service delivery and budget implementation plan”** means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality’s delivery of municipal services and its annual budget.
9. **“Virement”** is the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the relevant manager to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.
10. **“Function”/ “Vote”** means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality, and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

2. Background and Purpose

- 2.1 Virement is the process of transferring approved funds from one line item of the budget to another, essentially a means of utilising funds set aside for one purpose within a budget for expenditure of a different purpose.

2.2 Virement is to be used to encourage a flexible approach to utilising allocated funds, which enables managers to take advantage of opportunities that arise within the current financial year and give managers the motivation to reduce costs, control budgets and provide an efficient and effective service.

2.3 Each year, the Municipality creates an annual budget which must be approved by Council. It is intended that the budget will be set for the duration of the financial year. However, circumstances and priorities may change resulting in over-budgeted and under-budgeted expenditure which will require movement between line items.

3. Application of the Policy

3.1 This policy applies to transfers between line items within functions/sub-functions. Virements can only take place within a function or sub-function and the same source of funding.

3.2 Section 28(2) of the MFMA provides that an adjustments budget may authorise the utilisation of projected savings in one vote/function towards the spending in another vote/function. MFMA Circular 89 provides that the creation of new projects or savings across functions can only take place through an adjustments budget.

3.3 "*Vote/Function*" means –

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) which specifies the total amount is appropriated for the purposes of the department or functional areas concerned.

3.5 With the implementation of MSCOA, virements will also be permitted within a project between each of the segments, provided funds are moved across the same segment type e.g from an item segment to another item segment within the project, or from one region segment to another region segment within the project etc.

3.6 Virements between MSCOA Projects will be permitted provided it complies with all other provisions of this policy. Virements from the repairs and maintenance project in the project segment will not be permitted.

3.7 Virements to correct MSCOA classifications or to further split budgets for MSCOA purposes will be permitted through-out the financial year for all MSCOA segments. These virements must be prepared by the Budget Office, and approved by the Chief Financial Officer (CFO). These virements must also be distinguished as an "MSCOA Correction" on the virement form.

4. Limitations on the amount of Virement

4.1 (a) The total amount transferred within votes or sub-votes in any financial year may not exceed 20% of the total approved operating expenditure budget for that vote.

(b) The total amount transferred from and to line items in the entire budget in any financial year may not exceed 10% of the total operating budget for that year.

(c) The amount of any one transfer of funds between line items may not exceed the sum of R 200,000.00.

4.2 A transfer which exceeds, or which would result in the exceeding of any of the limits referred to may be performed if approved by the Accounting Officer.

5. Virement Permitted only if Savings are Projected

A transfer of funds from one line item to another may only take place if there are projected savings from the line item from which the funds are to be transferred.

6. Further Restrictions on Virement

6.1 A transfer of funds between line items shall not be permitted if the virement:

(a) alters the approved outcomes or outputs of an Integrated Development Plan; or

(b) results in any adjustments to the Service Delivery and Budget Implementation Plan;

(c) Contravenes any policy of the Municipality.

6.2 To the extent that it is practical to do so, transfers within the first three months of the financial year should be avoided unless this is required in terms of an MSCOA correction virement in paragraph 3.7 above.

6.3 In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.

6.5 The transfer of funds in any year shall not give rise to expectations of a similar transfer occurring in a subsequent year.

6.6 The transfer of funds must in any event not contravene the provisions of paragraph 4.6 of the MFMA Circular 51 (Municipal Budget Circular of the 2010/2011 MTREF) which provides as follows:

- (a) "Virements should not be permitted in relation to the revenue side of the budget;
- (b) Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (eg. The management of central insurance funds and insurance claims from separate votes);
- (c) Virements from the capital budget to the operating budget should not be permitted;
- (d) Virements towards personnel expenditure should not be permitted;
- (e) Virements to or from the following should not be permitted: bulk purchases, debt impairment, interest charges, depreciation, grants to individuals, revenue foregone, insurance and VAT;
- (f) Virements should not result in adding "new" projects to the Capital Budget;
- (g) Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.

6.7 As per MFMA Circular 89 virements should not be allowed from the repairs and maintenance project in the project segment.

7. Procedure for Virement

7.1 Transfers may only be made by the Heads of Department or senior delegated officials in the Budget and Treasury Department"

7.2 The Accounting Officer shall prescribe a form on which all transfers shall be made, not limited to the following:

- (a) The name of the department
- (b) Descriptions of the MSCOA segments to be used
- (c) The amount of the transfer
- (d) The saving in the line item from which the transfer is to be made
- (e) The reason for the transfer; and

7.3 Each transfer shall be submitted by the Head of Department to the Executive Director Finance (CFO)

7.3.1. The Executive Director Finance (CFO) can either:

- (a) Approve the transfer
- (b) Reject the transfer
- (c) Refer the transfer to the Municipal Manager

7.4 Virements in respect of conferences and delegations and entertainment shall be approved by the CFO.

8. Financial Responsibilities

Strict budgetary control must be maintained throughout the financial year, in order to identify potential overspends and / or income under-recovery within individual vote departments are identified at the earliest possible opportunity. (Section 100 MFMA)

The Executive Director Finance (CFO) has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. The budget virement process is one of these controls. (Section 27(4) MFMA)

It is the responsibility of each manager or head of a department or activity to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78 and 102.

9. Reporting

The Accounting Officer shall submit a report on all transfers made under this Policy to the Mayor every quarter.



ALFRED DUMA LOCAL MUNICIPALITY

PETTY CASH POLICY

PETTY CASH MANAGEMENT POLICY

Definitions

1. **Petty Cash - Imprest Fund:** a petty cash fund that remains constant, containing cash or satisfactory evidence of disbursement (paid receipts) equal to the amount of the fund.

The following principles should apply to this type of petty cash fund.

- Petty Cash should be used to purchase small items only.
- Petty Cash should be used in emergency cases only.
- Petty Cash may be used for cash only suppliers.

2. **Custodian:** a person who has ultimate responsibility for petty cash funds.

Procedures

1. The designated custodian should sign for the entire petty cash fund.
2. The petty cash fund must be kept in a lockable cash box which must be stored in a safe.
3. Only the Head of Department or the designated custodian should handle petty cash funds.
4. All petty cash purchases must be approved by the appropriate Head of Department prior to any purchase and must be limited to a total of R10 000 per month per department. Individual transactions may not exceed R2000.00.
This is in line with the approved Supply Chain Management Policy.
5. Petty cash funds may not be utilised for major services of any municipal vehicles.
6. Petty cash funds may be used for repairs of tyre punctures on municipal vehicles provided that a registered supplier from the municipal database is used.
This is in line with the approved Supply Chain Management Policy.
7. Only the Manager: Department of Public Safety is authorised to purchase minor spares from petty cash up to an amount not exceeding R2000-00 per purchase provided that a registered supplier from the municipal database is used.
This is in line with the approved Supply Chain Management Policy.
8. The designated custodian must maintain a petty cash book.
9. The petty cash fund and the petty cash book must be reconcilable at all times.
The designated custodian must have the actual cash or a signed voucher for any cash that is expended.
10. A pre-numbered voucher should be prepared for each petty cash disbursement.
11. The Department of Finance is to provide Departments with pre-formatted, Numerically sequenced Petty Cash Voucher Books. It is the responsibility of each Head of Department to obtain and utilise these books accordingly.
12. Each petty cash voucher should be:

- dated,
- contain an explanation of the expenditure and the original invoice,
- indicate the line item number to be charged at the time of reimbursement of funds,
- show the amount of expenditure numerically and in words,
- be signed by the Head of Department,
- be signed by the person receiving the money, and
- be signed by the person disbursing the money.

13. Departments must claim actual expenditure incurred. The amount claimed must be rounded off.

14. Petty cash funds must not be used to cash personal cheques.

15. Petty cash funds must not be used to buy assets.

16. Petty cash funds must not be used for the payment of parking expense.

17. Petty cash funds must not be used for the payment of subsistence and travelling expenses

18. Petty cash funds may only be used for financing job creation payouts or casual pay-outs in exceptional cases as authorised by the Municipal Manager.

19. Toll fees in the Alfred Duma Municipal area can be claimed from petty cash. However, toll fee expenditure that is incurred outside the Alfred Duma Municipal area must be claimed in accordance with Council's approved Subsistence and Travelling Policy.

20. Only the Mayoral Office is authorised to use petty cash for petrol expense and toll fee claim that is incurred outside the Alfred Duma Municipal area.

21. Private funds should not be mixed with petty cash funds.

22. On a regular basis, the Internal Audit Section should count petty cash on hand and reconcile the amount counted to vouchers on hand and the petty cash book balance.

23. When petty cash is counted by the Internal Audit Section, the designated custodian must be present.

24. Each Head of Department must submit detailed monthly reports to Management on petty cash expenditure with details of the date, company name, description of service or product and the amount shown in the report.

231



PROPERTY RATES POLICY

2018/2019

Contents

<u>1. Abbreviations</u>	3
<u>2. Definitions</u>	4 - 5
<u>3. Introduction</u>	7
<u>4. Objectives</u>	7
<u>5. Resolutions Promulgated</u>	7
<u>6. Rates and Categories</u>	7 - 7
<u>7. Reductions</u>	7
<u>8. Rebates upon Application</u>	8
<u>9. Impermissible Differentiation</u>	8 - 8
<u>10. Management of Property Rate Shock</u>	9
<u>11. Liability for Payment of Rates</u>	9
<u>12. Rates Account and Annual Assessment Notices</u>	9 - 9
<u>13. Payment</u>	10
<u>14. Recovery of Arrears</u>	10
<u>15. Incentives</u>	10
<u>16. Valuation Rolls</u>	11
<u>17. Relevant Dates Relating to the Valuation Rolls</u>	11
<u>18. Validity Period of this Policy</u>	11

1. Abbreviations

Constitution	The Constitution of the Republic of South Africa 180 of 1996
Council	Alfred Duma Local Council
ITB	Ingonyama Trust Board
ITB land	Land administered by the Ingonyama Trust Board
MFMA	Local Government: Municipal Finance Management Act 56 of 2003
MPRA	Local Government: Municipal Property Rates Act 6 of 2004
Multiple use properties	Properties used for multiple purposes as considered in s9(c) of MPRA
Municipality	The Alfred Duma Local Municipality
PBOs	Public Benefit Organisations
PSP	Public service purposes
Structures Act	Municipal Structures Act 117 of 1998
Systems Act	Municipal Systems Act 32 of 2000

2. Definitions

Any wording in this policy, if included in the definitions as listed in the Local Government Municipal Property Act, Act 6 of 2004, as amended will carry the same meaning unless stated otherwise hereunder:-

Business/Commercial, in relation to a property, means the use of a property for the activity of buying, selling or trading in commodities or services on an erf and includes any office or other accommodation on the same erf, the use of which is incidental to such activity, inclusive of a hotel or motel or Bed & Breakfast/guesthouse and eco-tourism but does not include the business of agriculture, farming, or any other business consisting of the cultivation of soils, the gathering in of crops, the rearing of livestock or the propagation and harvesting of fish or other aquatic organisms, including businesses outside the old boundary of the previous Emnambithi/Ladysmith Municipality (Ladysmith, Ezakheni, Ezakheni Industrial Estate, Steadville, Colenso, Nkanyezi, **Indaka** and Van Reenen) and within the Alfred Duma Local Municipal demarcation.

Child means a person under the age of 18 years, who is also unemployed.

Child-headed household is a household where a child (blood relative of property owner) is responsible for the care of his / her siblings or incapacitated parents.

Developer means a Township Developer, who is the owner of a property for which subdivisions have been approved for transfer in terms of Act 6 of 2008, or other legislation.

Disabled means a person who qualifies to receive relief under the Social Services Act 59 of 1992, or who has been certified as disabled by a medical practitioner.

Farm Agricultural in relation to property means the use of a property for farming activities without derogating from section 9 but excludes the use of a property for the purpose of eco-tourism or for the trading in or hunting of game and includes the business of agriculture, farming or any other business consisting of the cultivating of soils, the gathering in of crops, the rearing of livestock or the propagation and harvesting of fish or other aquatic organisms, and/or land within a Game Reserve, reserved for future eco-tourism as defined in this policy.

Farm Commercial in relation to a property, means the use of a property for the activity of buying, selling or trading in commodities or services on an erf and includes any office or other accommodation on the same erf, the use of which is incidental to such activity, inclusive of a hotel or motel or Bed & Breakfast/guesthouse and eco-tourism but does not include the business of agriculture, farming, or any other business consisting of the cultivation of soils, the gathering in of crops, the rearing of livestock or the propagation and harvesting of fish or other aquatic organisms, including businesses outside the old boundary of the previous Emnambithi/Ladysmith Municipality (Ladysmith, Ezakheni, Ezakheni Industrial Estate, Steadville, Colenso, Nkanyezi, **Indaka** and Van Reenen) and within the Alfred Duma Local Municipal demarcation.

Farm Residential means a property having a suite of rooms, which forms a living unit that is used for human habitation purposes or a multiple number of such units, excluding a hotel or motel, Bed and Breakfast, lodges, including farm properties and/or small holdings used exclusively for this purpose. This property must be included in the valuation roll in terms of the MPRA Section 48 (2)(b), in respect of which the primary use or permitted use is for residential purposes without derogating from Section 9 (Amended by s1 of Act 29 of 2014).

Industrial, in relation to a property, means the use of a property for a branch of trade or manufacturing, production, assembly or processing of finished or partially finished products from raw materials or fabricated parts, including any office or other accommodation on the erf, the use of which is incidental to the use of the factory.

Market value of a property is the amount the property would have realised if sold on the date of valuation on the open market by a willing seller to a willing buyer. (See section 46 of MPRA).

Medically boarded is a person who, due to medical reasons, has retired prematurely.

Municipal domestic means municipal property used by the Municipality for its own purpose in order to serve the public including vacant land.

PBO means an organisation using a property, in the ownership of such organisation, for any specific public benefit activity listed in Part 1 of the Ninth schedule to the Income Tax Act includes a private school which is registered with the relevant authorities as a public benefit organisation, with a Tax Clearance Certificate from SARS.

Pensioner means a person who is registered for and in receipt of a social pension; or a person 60 years of age or older.

Place of public worship in relation to property, including vacant land, means a property registered in the name of a religious community, and used primarily as a place of worship by that religious community, including an official residence occupied by an office-bearer of that community, who officiates at services and gatherings at that place of worship.

Residential property, means a property having a suite of rooms, which forms a living unit that is used for human habitation purposes or a multiple number of such units including farm properties and land on which no immovable improvements have been erected which is situated outside the old boundaries of the previous Emnambithi/Ladysmith Municipality (Ladysmith, Ezakheni, Ezakheni Industrial Estate, Steadville, Colenso, Nkanyezi, **Indaka** and Van Reenen) and within the Alfred Duma Local Municipal demarcation and/or small holdings used exclusively for this purpose. This property must be included in the valuation roll in terms of the MPRA Section 48 (2)(b), in respect of which the primary use or permitted use is for residential purposes without derogating from Section 9 (Amended by s1 of Act 29 of 2014).

Rural communal, in relation to property, means:

- (a) property having a suite of rooms which forms a living unit that is used for human habitation purposes or a multiple number of such units, and land on which no immovable improvements have been erected which is situated outside the old boundaries of the previous Emnambithi/Ladysmith Municipality (Ladysmith, Ezakheni, Ezakheni Industrial Estate, Steadville, Colenso, Nkanyezi, **Indaka** and Van Reenen) and within the Alfred Duma Local Municipal demarcation and excludes a Hotel, Bed and Breakfast and lodge or Motel or a property categorized as Business or State and excluding farm properties and/or small holdings as defined in residential.
- (b) includes-
 - (i) any land or real right in land held over land owned by Ingonyama Trust Board contemplated in section 4A(4) of the Ingonyama Trust Act, 1994;
 - (ii) any land owned by ITB that is subject to an agreement of lease registered with the

- (iii) any land that is subject to an agreement of lease for a period in excess of 10 years, which is registered with the Ingonyama Trust Board.

Small Holding (Agricultural) in relation to property means the use of a property for farming activities without derogating from section 9 but excludes the use of a property for the purpose of eco-tourism or for the trading in or hunting of game and includes the business of agriculture, farming or any other business consisting of the cultivating of soils, the gathering in of crops, the rearing of livestock or the propagation and harvesting of fish or other aquatic organisms, and/or land within a Game Reserve, reserved for future eco-tourism as defined in this policy.

Small Holding (Residential) means a property having a suite of rooms, which forms a living unit that is used for human habitation purposes or a multiple number of such units, excluding a hotel or motel, Bed and Breakfast, lodges, including farm properties and/or small holdings used exclusively for this purpose. This property must be included in the valuation roll in terms of the MPRA Section 48 (2)(b), in respect of which the primary use or permitted use is for residential purposes without derogating from Section 9 (Amended by s1 of Act 29 of 2014).

Urban area in relation to property means properties are situated within the boundaries of the previous E, and Alfred Duma Local Municipality. Please see www.demarcation.org.za for maps.

Vacant land means property on which no immovable improvements have been constructed, or any immovable improvements which are not yet occupied since commencement of construction, which include land outside the old boundaries of Alfred Duma Local Municipality.

3. Introduction

The Municipality is empowered to levy rates on properties within its jurisdiction, and is obligated to adopt and implement a policy on such levying of rates on rateable property. This policy is aimed at enhancing certainty, uniformity, and simplicity within the Municipal community. Cognisance will be taken of the burden of rates on the poor, as well as on respective property owners.

The market value of rateable properties within the Municipality's jurisdiction shall be recorded in the valuation roll, or supplementary valuation roll/s. As part of the annual budgeting process, the Municipality shall impose a rate in the Rand on such market value. Rateable property includes any rights registered against a property, but excluding a mortgage bond. Some properties are exempt from being rateable.

This policy shall be reviewed and amended as necessary annually. The by-laws give effect to such rates policy.

4. Objectives

- 4.1 Prioritising service delivery and developmentally promoting the economic and financial viability of the Municipality;
- 4.2 Providing local government with a sufficient and buoyant source of revenue in order to fulfil its developmental responsibilities; and
- 4.3 Exercising municipal power to levy rates within a statutory framework.

Further, this Municipality is committed to:

- 4.4 Charging rates on all rateable property; while
- 4.5 Treating owners in the same category equitably;
- 4.6 Levying differing rates for differing properties, as appropriate;
- 4.7 Exempting certain owners / properties from being subject to payment of rates, in order to be equitable; or
- 4.8 Granting rebates to certain categories of owners / on certain categories of properties;
- 4.9 Taking into account the effect of rates on public service infrastructure; and
- 4.10 Justifiably granting exemptions, rebates, and/or reductions only in terms of section 15 of the MPRA; and
- 4.11 Not granting such relief to owners on an individual basis.

5. Resolution Rates Levy Promulgated

A rate is levied in terms of a resolution which is passed by the Council, with a supporting vote of a majority of its members. This is then displayed for 30 (thirty) days at the Municipal offices, libraries, the official Municipal website, as well as in a notice published in the media. The resolution is promulgated by being published in the Provincial Gazette.

6. Rates and Categories

Categorisation of properties is determined by the Municipal Valuer, based on the use, or multiple uses in some instances (see 6.1 below) of the property. A change in use of the property will result in a change of category. Rates will be levied based on the value of the property appearing in the Valuation and Supplementary Valuation Rolls.

6.1 Categories of properties (that are used for the following purposes)

- Residential^{1 2}
- Industrial
- Business and Commercial (includes Bed and Breakfast, and the like)
- Agriculture
- Public service infrastructure
- Public service purposes (State)
- Vacant land
- Farms Agriculture
- Farms Commercial
- Farms Residential
- Municipal Properties
- Public Benefit Organisation
- Religious (Place of Public Worship)
- Rural Communal
- Smallholdings: Agriculture
- Smallholdings: Residential

6.2 Categories of Owners for Calculating Rebates, Reductions or Exemptions

- Application Indigent
- Pensioners
- Municipal Properties
- Land Reform Beneficiaries
- ITB
- PBOs
- NPO
- Public open space
- Rural communal

7. Reductions

Rates will not be levied on:

- 7.1 The increase in value of a property due to rezoning for more advantageous purposes, but which is not used for such advantageous purpose.
- 7.2 The first R100 000.00 (one hundred thousand rand) of the value of developed residential properties assigned in the valuation or supplementary valuation rolls.
- 7.3 A temporary reduction in rates for properties within a disaster area may be taken into account during the preparation of the Municipality's annual budget.

8. Rebates upon Application

Further rebate in the following circumstances may be granted upon application before 30 June in the year preceding the financial year to which the rebate shall apply:

- 8.1 Pensioner owners (25%);
- 8.2 Disabled owners (25%);
- 8.3 Medically boarded owners (15%); or

¹ Rates in a sectional title scheme are levied against the individual units, and not against the scheme as a whole.

² Rates are collected from the owner of the unit, not the body corporate; nor may the body corporate apportion and collect rates from owners.

It remains within the Municipality's discretion to grant such further rebate as it deems fit and/or viable.

9. Impermissible Differentiation

The following rates shall not be levied:

- 9.1 Different rates on residential properties;
- 9.2 A rate on non-residential properties that exceeds a prescribed ratio to the rate on residential properties;
- 9.3 Rates which unreasonably discriminate between categories of non-residential properties; or
- 9.4 Additional rates, except as allowed by section 22 of the MPRA.

10. Management of Property Rate Shock

- 10.1 It is understood that with the implementation of a new valuation roll, certain properties will be subject to a higher increase than others. It is also expected that rates on certain properties will decrease;
- 10.2 Council will, during the budget process attempt to limit the rates shocks to property owners due to the increase in the rate payable on their properties as a result of the compilation and implementation of the new valuation roll and
- 10.3 The limit in the increase in rates payable will be set at 250% (draft roll will determine).
- 10.4 The following criteria will apply:
 - a) The rates increase must exceed 250%
 - b) The reduction as a result of the rates shock will only apply to Residential property as described in the definition;
 - c) The property must be occupied by the owner of the property;
 - d) Vacant land will not qualify;
 - e) Rates shock will not apply in the case where the rates shock is due to improvements of the property;
 - f) Application for the reduction must be made for each financial year before 31 May and the first application must be made in the first year that the new general valuation roll is implemented and will not apply to any ensuing new valuation roll(s);
 - g) If no application is made in the first year of the implementation of the new valuation roll, no consideration will be made in any ensuing years and will not apply to new owners of the property after the implementation date (1 July 2017) and
 - h) The rate that exceeds the determined percentage will be phased in over ensuing three years.

11. Liability for Payment of Rates

- 11.1 Council must exercise its power to levy a rate on property subject to Section 229 and any other applicable provisions of the Constitution and the provisions of the Municipal Property Rates Act, 2006 as well as the approved rates policy.
- 11.2 Owners of properties are ultimately liable for the payment of rates in relation with their properties. Joint owners are jointly and severally liable; while multiple owners in undivided shares may be held liable for a portion or the rates in their entirety, depending on the circumstances.

12. Rates Account and Annual Assessment Notices

The Municipality shall endeavour to furnish each person liable for the payment of rates with an account specifying the following:

- Balance brought forward;
- Interest;
- Payment / receipts;
- Transaction movement;
- The amount payable monthly for rates due;
- The date on or before which the amount is payable; and
- The market value of the property.

The account holder is liable for the payment of rates regardless of whether they have in fact received such written rates account. It is the rates payer's responsibility to establish the rates due monthly, as well as provide up to date contact information to the Municipality.

The Municipality shall further endeavour to furnish each rate payer with a written notice specifying:

- The amount of rates payable for the financial year;
- The date on or before such amount is payable;
- A breakdown of the amount;
- The market value of the property;
- Whether the property is subject to any compulsory phasing in under section 21 of the MPRA; and
- The amount of discount, if any.

Again, a rate payer is not absolved from the duty to pay as a result of non-receipt of such notice.

13. Payment

Rates are levied for a financial year over a period of 11 (eleven) months, the first instalment payable before or on 31 August of that year.

14. Recovery of Arrears

The Municipality shall endeavour to collect rates in arrears from the registered owner of the property. However, where this proves impossible, the Municipality shall collect such arrears from any tenant, occupier, or agent of the owner. A notice shall first be served on such persons before the arrears are recovered.

The amount recoverable from occupiers or tenants is limited to the amount of rent or other money due or payable but not yet paid by such tenant or occupier to the owner of the property.

The amount recoverable from an agent is limited to any rent or other money received by the agent on the owner's behalf, less any commission due to the agent.

15. Incentives

A further five percent (5%) discount on the annual rates assessment will be granted, if paid in full on or before the last working day of August of the relevant financial year on the following categories of properties:

- Agricultural;
- Vacant land;

- Residential;
- Industrial;
- Business and Commercial;

All properties within the Ladysmith CBD, as well as commercial properties in Sir George Street in Colenso, may apply to the Department of Economic Development for further incentives.

16. Valuation Rolls

A general valuation of all properties in the municipal area will be conducted every four years. Supplementary valuations will be conducted at least once a year.

In preparation of the valuation rolls, the Municipality or its agents may require the owner, occupier or tenant of a property to provide documentation or information to assist in the valuation. Such information shall not be disclosed except in terms of the MPRA, legal proceedings or a court order. Where the required information was not provided and later forms part of an appeal process, the appeal board may order that costs be paid by the party who failed or refused to provide the information.

17. Relevant Dates Relating to the Valuation Rolls

The third general valuation ~~takes~~ **took place with** effect from 1 July 2017, and remains valid for a further four financial years.

Rates become payable on the dates mentioned below where they do not become payable from the date of the general valuation:

Supplementary Valuation Roll	Effective date of Rates Levy
Omitted from General Valuation	Date of Supplementary Valuation Roll
Included in / excluded from municipal area	Inclusion / exclusion date
Subdivided or Consolidated	Registration Date
Market value has substantially increased / decreased since General Valuation Alteration and/or additions to buildings New buildings Rezoning	Date the event occurred
Substantially incorrectly valued during General Valuation	Date of Supplementary Valuation Roll
Re-valued for any exceptional reason	Date of Supplementary Valuation Roll
Change of Category	Date the event occurred
Clerical / Typing error	Date on which the clerical / typing error was made

18. Validity Period of this Policy

This policy is valid for the financial year of 2018/2019.

ALFRED DUMA MUNICIPALITY



FUNDING, RESERVES AND PROVISIONS POLICY

2018/2019

INDEX

1.	INTRODUCTION AND OBJECTIVE	1
2.	SECTION A : FUNDING POLICY	1
2.1	LEGISLATIVE REQUIREMENTS	1
2.2	STANDARD OF CARE	1
2.3	STATEMENT OF INTENT	1
2.4	CASH MANAGEMENT	2
2.5	LIABILITY MANAGEMENT	2
2.6	FUNDING OF THE OPERATING BUDGET	2
2.7	FUNDING OF THE CAPITAL BUDGET	3
2.8	FUNDING COMPLIANCE MEASUREMENT	4
3.	SECTION B : RESERVES AND PROVISIONS POLICY	7
3.1	INTRODUCTION	7
3.2	LEGAL REQUIREMENTS	7
3.3	TYPES OF RESERVES / PROVISIONS	7
3.4	ACCOUNTING FOR RESERVES AND PROVISIONS	8
4.	SECTION C : REVIEW OF THE POLICY	8

1. INTRODUCTION AND OBJECTIVE

The Council's objective is to ensure the long term financial sustainability of the municipality with acceptable levels of service delivery to the community.

This policy aims to set standards and guidelines towards ensuring financial viability over the short and long term and includes funding, reserves and provisions requirements.

2. SECTION A: FUNDING POLICY

2.1 LEGISLATIVE REQUIREMENTS

In terms of Sections 18 and 19 of the Municipal Finance Management Act (Act No 56 of 2003), an annual budget may only be funded from:

- 2.1.1 Realistically anticipated revenues to be collected, including grants;
- 2.1.2 Cash backed accumulated funds from previous years' surpluses not committed for other purposes, and
- 2.1.3 Borrowed funds, but only for capital projects.

Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

The requirements of the MFMA are clear in that the budget must be cash – funded, i.e. cash receipts inclusive of prior period cash surpluses committed to this specific budget, must equal or be more than cash paid.

In determining whether the budget is actually cash funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

2.2 STANDARD OF CARE

Each functionary in the budgeting and accounting process must do so with judgment and care with the primary objective of ensuring that the objectives of this policy are achieved.

2.3 STATEMENT OF INTENT

The municipality will not pass a budget which is not cash – funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance and provided that the requirements of the MFMA must at all times be adhered to.

2.4 CASH MANAGEMENT

Cash must be managed in terms of the municipality's Cash Management and Investment Policy.

2.5 LIABILITY MANAGEMENT

Debt must be managed in terms of the municipality's Cash Management and Investment Policy.

2.6 FUNDING OF THE OPERATING BUDGET

2.6.1 INTRODUCTION

The municipality's objective is that the user of municipal resources must pay for such usage in the period in which it will occur.

The municipality recognizes the plight of the poor, and in line with national and provincial objectives, commits itself to subsidizing services to the poor. This may necessitate cross-subsidization in some tariffs to be calculated in the budget process.

2.6.2 GENERAL PRINCIPLES WHEN COMPILING THE OPERATING BUDGET

The following specific principles apply when compiling the budget:

- a) The budget must be cash-funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
- b) Growth parameters must be realistic and be based on historic patterns and adjusted for current reliable information;
- c) Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay;
- d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any transfers from other municipalities;
- e) Projected revenue from service charges must be reflected as net (i.e. all billing less revenue foregone, including free basic services).
- f) Projected revenue from property rates must include all rates to be levied.
- g) For the purpose of the Cash Flow Budget all rebates and discounts must be deducted from the projected revenue.

- h) Only changes in fair values related to cash may be included in the cash flow budget. Changes to unamortized discount must be included in the Operating Budget. Employee related costs include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits' requirements are well above the initial cash capabilities of the municipality. It is therefore determined that the short term expenditure portion of employee benefits be funded from the current year operating cash surplus.
- i) Depreciation must be fully budgeted for in the operating budget. The funded and unfunded portion will be determined during the budgeting process.
- j) Contributions to provisions (non-current and current) do not form part of the cash flow for provisions, except for the current portion of post-retirement benefits relating to continued members for medical aid, long service awards and leave. It is necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed.

2.7 FUNDING OF THE CAPITAL BUDGET

2.7.1 INTRODUCTION

The municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non-existent.

In order to achieve this objective, the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets.

2.7.2 FUNDING SOURCES FOR CAPITAL EXPENDITURE

The capital budget can be funded by way of own cash, grants, public contributions as well as external loans.

Cash

The capital budget or portions thereof may also be funded from surplus cash generated in previous financial years. The cash must already be available and not be committed for other purposes or expected to be generated in the current or future years. The allocations of the funding sources from own contributions will be determined during the budget process.

Grants (Including Public Contributions)

Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should also be taken that grant funding does not place an unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

The accounting officer will annually evaluate the long term effect of unusual capital grants on future tariffs, and if deemed necessary, report on such to Council.

Depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The Accounting Officer will put such accounting measures in place as to comply with this requirement as far as possible.

MFMA Circular 48, read with MFMA Circular 58 and 75, states that municipalities may treat the reclaimed VAT in respect of the expenditure from conditional grant funds as "own revenue". The municipality elects to utilise the full grant funding for the grant related projects.

External Loans

The municipality may only raise loans in accordance with its Cash Management and Investment Policy.

The Accounting Officer must also put such accounting measures in place to ensure that no unspent portions of loans raised, be included in the cash surplus for the year.

2.8 FUNDING COMPLIANCE MEASUREMENT

2.8.1 INTRODUCTION

The municipality must ensure that the annual budget or any subsequent adjustments budget complies with the requirements of the MFMA and this policy. For this purpose a set of indicators must be used as part of the budget process. These indicators include all the indicators as recommended by National Treasury as well as any additional indicators detailed in this policy.

2.8.2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

A positive Cash and Cash Equivalents position should be maintained throughout the year.

2.8.3 CASH PLUS INVESTMENTS LESS APPLICATION OF FUNDS

The overall cash position of the municipality must be sufficient to include:

- a) unspent conditional grants;
- b) unspent conditional public contributions;
- c) unspent borrowings;
- d) VAT due to SARS;
- e) ceded investments;
- f) the cash portion of statutory funds such as the Housing Development Fund;
- g) other working capital requirements; and
- h) the cash position must be sufficient to back reserves as approved by the municipality and those portions of provisions as indicated in this policy.

INDICATORS

2.8.4 MONTHLY AVERAGE PAYMENT COVERED BY CASH AND CASH EQUIVALENTS ("CASH COVERAGE")

This indicator shows the level of risk should the municipality experience financial stress.

2.8.5 SURPLUS/DEFICIT EXCLUDING DEPRECIATION OFFSETS

It is probable that the operating budget including depreciation charges on assets funded by grants and public contributions, as well as on revalued assets, will result in a deficit.

As determined elsewhere in this policy it is not the intention that residents be burdened with tariff increases to provide for such depreciation charges. In order to ensure a "balanced" budget, the cash position must be determined.

Should a budget result in a deficit cash position, the budget will be deemed unfunded and must be revised.

2.8.6 PROPERTY RATES / SERVICE CHARGES REVENUE PERCENTAGE INCREASE LESS MACRO INFLATION TARGET

The intention of this indicator is to ensure that tariff increases are in line with macro- economic targets, but also to ensure that revenue increases for the expected growth in the geographic area are realistically calculated.

2.8.7 CASH COLLECTION % RATE

The objective of this indicator is to establish whether the projected cash to be collected is realistic and complies with section 18 of the MFMA.

The collection rate for calculating the provision for impairment of receivables must be based on past and present experience. Past experience refers to the collection rates of the prior years and present experience refers to the collection rate of the current financial year as from 1 July.

It is not permissible to project a collection rate higher than the current rate. Any improvement in collection rates during the budget year may be appropriated in an Adjustments Budget.

2.8.8 DEBT IMPAIRMENT EXPENSE AS A PERCENTAGE OF BILLABLE REVENUE

This indicator provides information as to whether the contribution to the provision for impairment of receivables is adequate. In theory it should be equal to the difference between 100% and the cash collection rate, but other factors such as past performance can have an influence on it. Any deviation must be motivated in the budget report.

2.8.9 BORROWING AS A PERCENTAGE OF CAPITAL EXPENDITURE (EXCLUDING GRANTS AND CONTRIBUTIONS)

This indicator provides information as to compliance with the MFMA in determining borrowing needs. The Accounting Officer must ensure compliance with the Municipality's Cash Management and Investment Policy.

2.8.10 GRANT REVENUE AS A PERCENTAGE OF GRANTS AVAILABLE

The percentage attained should never be less than 100% and the recognition of expected unspent grants at the current year-end as revenue in the next financial year must be substantiated in a report.

2.8.11 CONSUMER DEBTORS CHANGE (CURRENT AND NON-CURRENT)

The object of the indicator is to determine whether budgeted reductions in outstanding debtors are realistic.

Any unacceptably high increase in either current or non-current debtors' balances should be investigated and reported.

2.8.12 REPAIRS AND MAINTENANCE EXPENDITURE LEVEL

Property Plant and Equipment should be maintained properly at all times in order to ensure sustainable service delivery. The budget should allocate sufficient resources to maintain assets and care should be exercised not to allow a declining maintenance program in order to fund other less important expenditure requirements.

Similarly, if the maintenance requirements become excessive, it could indicate that a capital renewal strategy should be implemented or reviewed.

2.8.13 ASSET RENEWAL/REHABILITATION EXPENDITURE LEVEL

This indicator supports further the indicator for repairs and maintenance.

The Accounting Officer must, as part of the capital budget, indicate whether each project is a new asset or a replacement/renewal asset in order to determine whether the renewal program is sufficient or needs revision.

3 SECTION B: RESERVES AND PROVISIONS POLICY

3.1 INTRODUCTION

Fund accounting historically formed the major component of municipal finance in the IMFO standards.

After the change to Generally Recognised Accounting Practice (GRAP), fund accounting is no longer allowed.

The municipality, however, recognizes the importance of providing to the municipality itself, as well as its creditors, financiers, staff, and general public a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.

This policy therefore aims to provide for a measure of protection by creating certain reserves and provisions.

3.2 LEGAL REQUIREMENTS

There are specific legal requirements for the creation of reserves, such as the Housing Development Fund. The GRAP Standards themselves do not provide for reserves, although certain provisions are required in terms of GRAP.

3.3 TYPES OF RESERVES / PROVISIONS

Reserves / Provisions can be classified into two main categories being “cash funded” and “non-cash funded”.

3.3.1 CASH FUNDED RESERVES

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:

a) Statutory reserves

It may be necessary to create reserves prescribed by law, such as the Housing Development Fund. The Accounting Officer must create such reserves according to the directives in the relevant laws.

b) Self-Insurance reserves

The Municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that are not insured externally. This Reserve is ring-fenced within the accumulated surplus. Contributions to the Fund are considered annually during the Budget process.

3.3.2 NON – CASH FUNDED RESERVES / PROVISIONS

On occasion it is necessary to create non-cash funded reserves. The Accounting Officer must create reserves prescribed by the accounting standards, such as the Revaluation Reserve, if required, and provisions such as post-retirement benefits and rehabilitation of land fill sites.

3.4 ACCOUNTING FOR RESERVES AND PROVISIONS

3.4.1 REVALUATION RESERVE

The accounting for the Revaluation Reserve must be done in accordance with the requirements of GRAP 17.

3.4.2 OTHER RESERVES

The accounting for all other reserves must be processed through the Statement of Financial Performance. The required transfer to or from the reserves must be processed in the Statement of Net Assets to or from the accumulated surplus.

In terms of GRAP1 transactions may be directly appropriated against these reserves.

3.4.3 PROVISIONS

Provisions are established from contributions appropriated in the annual budget. Currently, the long term portions of provisions are non-cash funded and are covered by non-current assets.

4. SECTION C: REVIEW OF THE POLICY

This policy shall be for the period **2018/2019** and shall be reviewed on an annual basis, to ensure that it is in line with the municipality's strategic objectives and with legislation.



ALFRED DUMA LOCAL MUNICIPALITY

SUBSISTENCE AND TRAVEL POLICY

1. OBJECTIVE

It is essential that representatives of the municipality from time to time travel to other cities and towns in order to establish and maintain links and relationships with other municipalities, government bodies, and other parties, institutions and organisations operation in the sphere of local government. It is important for representatives to broaden their knowledge and understanding of and compare local experiences in local government transformation, innovation and change in the rest of the country, and this can effectively be done only through the medium of personal contact with a wide range of local government stakeholders.

This policy sets out the basis for the payment of a subsistence and travel allowance for the purposes of such official travelling outside the Municipal boundaries.

2. RESPONSIBILITIES OF REPRESENTATIVES WHO TRAVEL ON BUSINESS OF THE MUNICIPALITY

- 2.1 Every representative who travels on the business of the municipality must comply with this policy in letter and in spirit;
- 2.2 Representatives who travel on the business of the municipality must appreciate, at all times, that they are ambassadors for the municipality, that their actions, conduct and statements must be in the best interests of the municipality, and that they must comply with any specific mandates they have been given;
- 2.3 If an employee is attending a meeting outside the municipal boundaries, and does not have a driver's licence the employee should be paid a bus fare as per compu-ticket rates as it is not cost effective to let another official to drive an unlicensed official attending a meeting out of town;
- 2.4 Consistent with the municipality's performance monitoring and evaluation objectives, the Municipal Manager will ensure that a database of all representatives and official travelling is kept.

3. SUBSISTENCE AND TRAVEL ALLOWANCE

- 3.1 A subsistence and travel allowance is an amount of money paid by the municipality to a representative to cover the following expenses: -
 - 3.1.1 Meals (including reasonable gratuities);
 - 3.1.2 Incidentals such as refreshments, snacks, drinks etc;
 - 3.1.3 All business-related travel and
 - 3.1.4 Accommodation
- 3.2 A subsistence allowance does not cover any personal recreation, such as visits to a cinema, theatre or nightclubs, or sightseeing;

- 3.3 All travel claims should be submitted for processing and be approved by the HOD and the Municipal Manager latest 30 days after the event. Prior approval documentation must be attached to the travel claim form.

4. ENTITLEMENT TO A SUBSISTENCE AND TRAVEL ALLOWANCE

- 4.1 A representative may claim a daily subsistence allowance as provided in this policy with the understanding that all authorised personal expenses are covered by the subsistence allowance. No further expenses, with the exception of certain business expenses (see below), may be claimed;
- 4.2 The subsistence allowance may not be claimed without the representative having to furnish proof of expenses; Parking and Tollgate receipts must be attached when claiming for Subsistence and Travelling Allowance.
- 4.3 Entertainment of external business associates or contacts or clients or potential investors or potential clients falls outside the scope of the subsistence allowance and will be separately reimbursed (subject to prior approval where applicable). If a representative of the municipality has an entertainment allowance, this entertainment of external business associates or contacts or other parties must be claimed against the entertainment allowance;
- 4.4 A representative of the municipality must claim his or her subsistence allowance, as provided in this policy, preferably after embarking on any official trip.
- 4.5 No subsistence allowance will be paid, and representative will be entitled to a subsistence allowance, if the trip or travel is not related to the official business of the municipality. All travel on business of the municipality must be approved as such before a representative is entitled to a subsistence allowance;
- 4.6 For the purposes of a subsistence allowance, a representative shall mean: -
- 4.6.1 Councillors and officials
- 4.6.2 Any other representative specifically authorised to represent the municipality on a particular occasion.
- 4.7 When travelling, a parking receipt should be attached when claiming for Subsistence and Travelling.

5. CAR RENTAL AND OTHER TRAVEL COSTS

The procurement of the Air Travel by the Municipal Officials should take advantage of the negotiated discounted rates as directed by Circular 82 of the Municipal Finance Management Act No. 56 of 2003 (MFMA).

- 5.1 Municipalities are encouraged to continue considering their own fleet first, where viable, prior to hiring of vehicles;
- 5.2 Only "A" or "B" category vehicles may be rented, unless it is more cost-effective to hire a more expensive vehicle (for example, when the number of representatives involved could justify the hire of a microbus);
- 5.3 Car rental must be approved as part of the travel package before the trip is embarked on. A representative who rents a vehicle whilst travelling on the business of the municipality without having received prior authorisation will only be reimbursed for the cost of the vehicle rental if proof of expenditure can be produced and the representative can demonstrate that vehicle rental was reasonably but unexpectedly necessitated by the circumstances;
- 5.4 If a representative has to utilise his or her personal motor vehicle outside the boundaries demarcated for the municipality he or she will be reimbursed at the tariff prescribed from time to time per kilometre or any other maximum amount prescribed from time to time by the Department of Transport. The distance, to which the reimbursement applies, must be the fastest distance or as recorded on the vehicle mileage recorder, between the Lister Clarence Building and the location where the official business is to be transacted. For employees that are stationed/reporting at Ekuvukeni offices, their official business trip will be recorded from their office at Ekuvukeni. Distances are available on website www.shellgeostar.co.za If the total number of kilometres for which such reimbursement is received exceeds 8 000 in any tax year, reimbursements for the excess kilometres over 8 000 will be taxed for PAYE purposes;
- 5.5 All flights by representatives of the municipality shall be in economy class, unless another class of travel is specifically authorised by the Municipal Manager, Mayor or Executive Committee, as the case may be;
- 5.6 Where possible representatives must travel together, up to a maximum of four (4) in a vehicle, to minimise travelling expenses;
- 5.7 In addition to the above, in all cases the method of travelling which is the most beneficial to Council be used – where municipal transport is available such be used and it be expected from delegates to travel together as far as possible.

6. SUNDRY EXPENSES

Sundry expenses incurred in respect of airport taxes, parking fees, booking fees or toll fees will only be reimbursed with submission of the necessary proof. Where representatives qualify for toll concessions, only the cost of concession toll fees may be claimed. The cost of toll fees will be reimbursed in accordance with the SANRAL toll tariffs as at 1 March of each year and is available on the website www.nra.co.za

7. ACCOMMODATION COSTS AND SUBSISTENCE ALLOWANCE

The procurement of the accommodation should take advantage of the negotiated discounted rates as directed by circular 82 of the Municipal Finance Management Act NO. 56 OF 2003 (MFMA).

- 7.1 The actual cost of accommodation at the rate for a single room will be borne by the municipality provided the availability of resource and that the Supply Chain Management Processes are followed, in the following manner:

7.1.1 In respect of Full-time Councillors up to four (4) star accommodation

7.1.2 In respect of Councillors and Officials up to three (3) star accommodation.

- 7.2 Council shall arrange for dinner, bed and breakfast accommodation. Should the employee not accept Council accommodation, the official may, with consent of the Municipal Manager, arrange his own accommodation in which even a maximum of R750.00 per day shall be payable. Original invoices from the accommodation must be attached to the claim form together with the original toll gate slips;

- 7.3 The Municipal Manager may authorise a higher amount if warranted and sleepover is also to be authorised by the Municipal Manager if the venue is less than 250 km from Emnambithi/Ladysmith Town;

- 7.4 If the cost of accommodation includes, as it often does, the provision of breakfast, a subsistence allowance of R128.00 per day will apply in respect of domestic travel. Where breakfast is excluded the subsistence, allowance will be R150.00 per day.

- 7.5 That should an accommodation allowance be claimed, an amount of R150.00 be claimed in respect of breakfast;

- 7.6 Dinner allowance of R266.00 per night be provided when sleeping in a hotel or guest house. No alcohol to be paid for.

- 7.7 Travelling and Accommodation for Travelling outside the borders of the Republic of South Africa:

7.7.1 An accounting Officer may only approve purchase of economy class tickets for officials where the flying time for the flights is five hours or less; and

7.7.2 for flights exceeding five hours, may purchase business class tickets only accounting officers, and persons reporting directly to accounting officers.

7.7.3 Notwithstanding sub – regulation (7.7.2), an accounting officer may approve the purchase of business class tickets for officials with disabilities

- 7.7 The recoverable cost of travelling and accommodation for travelling outside the borders of the Republic of South Africa is to be determined in terms of the Foreign Subsistence Allowance published by SARS on 1 March each year (Refer to Annexure A). The calculation will be at spot rate on the day on which the claim will be submitted for payment.
- 7.8 In the case of both domestic and international travel, the day of departure and the day of return each qualify for a subsistence allowance of R128.00;
- 7.9 For purposes of this policy, domestic travel shall mean travel within South Africa, and international travel shall mean travel to any country other than South Africa.
- 7.10 An accounting officer must ensure that costs incurred for domestic accommodation and meals are in accordance with the maximum allowable rates for domestic accommodation and meals as communicated by the National Treasury, from time to time.

8. SUBSISTENCE ALLOWANCE IF TRAVEL OUTSIDE MUNICIPAL AREA IS FOR A DAY OR PART OF A DAY WITH NO OVERNIGHT STAY

- 8.1 If a representative is travelling internationally, approved South African Revenue Services rates as published are applicable. South African currency should be used in converting foreign currency on the day of paying out the subsistence allowance. If representatives travelling internationally are paid in excess of the South African Revenue Services rates, that such payment should be taxed.
- 8.2 If a representative travel outside the municipal area for six (6) hours or more a subsistence allowance of R150.00 may be claimed;
- 8.3 As an interim measure, in light of the recent amalgamation of Indaka Local Municipality and Emnambithi/Ladysmith Local Municipality, claims that are related to official business undertaken between former Indaka Local Municipality and Emnambithi/Ladysmith Local Municipality, may be claimed subject to prior approval by the Municipal Manager and being six (6) hours or more at an allowance of R150.00.

9. WORKSHOPS ETC FINANCED BY COUNCIL

9.1 Accommodation, transport and meals will be arranged at the cost of Council. If any representative prefers accommodation of his/her own choice no subsistence allowance will be payable;

9.2 If Council transport not available, transport allowance is in number 5.

10. OVERTIME

If overtime is claimed for any event, no subsistence allowance shall be paid.

11. AUTHORISATION

11.1 For purposes of implementing this policy the following shall apply provided that in all instances the expenses to be incurred are on the approved budget;

11.2 Only the Municipal Manager or the Mayor as the case may be may authorise any travel of one day or part thereof to be undertaken by officials, or payments to be made for persons invited to Ladysmith for interviews;

11.3 Only the Executive Committee may authorise any travel of one (1) day or part thereof to be undertaken by the Mayor, Deputy Mayor, Speaker, any Councillor or the Municipal Manager, provided that the Municipal Manager in consultation with the Mayor may authorise such travel where time is limited to obtain Executive Committee approval;

11.4 Only the Executive Committee may authorise any travel in excess of one (1) day to be undertaken by any representative provided that the Municipal Manager or the Mayor as the case may be may authorise such travel where time is limited to obtain Executive Committee approval;

11.5 An invitation to attend a workshop, meeting or related event is not an automatic authorisation to attend such workshop or event. The required authorisation must still be obtained from the Municipal Manager or Mayor or Executive Committee, as the case may be.

11.6 Councillors should obtain prior authorization from the Speaker and the Municipal Manager will then approve

12. NON-ATTENDANCE OR PARTIAL ATTENDANCE AT ANY EVENT

Representatives to any conference, workshop or meeting must ensure that they arrive on time and attend until the conclusion of such event. If any representative fails to do so, the Executive Committee or the Municipal

Manager, as the case may be, may recover part or all allowances and disbursements paid to enable such delegate or representative to attend such event, provided that such delegate or representative is afforded the opportunity to submit reasons for not being able to be present from the commencement to conclusion of such event.

13. STAFF ATTENDING LONG COURSES

- 13.1 That a long course will be any course attended for five (5) consecutive working days or longer;
- 13.2 Council shall arrange for dinner, bed and breakfast accommodation. Should the employee not accept Council accommodation, the official may, with consent of the Municipal Manager, arrange his own accommodation in which event a maximum of R750.00 per day shall be payable. Original invoices from the accommodation must be attached to the claim form together with the original toll gate slips;
- 13.3 That if possible, employees attending long courses make use of official transport for the duration of the course, every second week fuel will be provided to return home;
- 13.4 That should it be necessary to utilise private transport the employee be remunerated at the Department of Transport's rates determined from time to time, and also in respect of each two weeks' period of the course to return home;
- 13.5 That the training costs as well as travelling and subsistence allowance for Protection Services Officers attending any Traffic Training College be paid by Council on condition that: -
 - 13.5.1 Satisfactory progress reports be submitted monthly;
 - 13.5.2 The employee enters into an agreement with Council whereby such employee undertakes to remain in Council's service for a period of three (3) years after the attendance of such courses, and should such an employee terminate his service with Council for any reason, the said costs shall be recovered from the employee on a pro rata basis.

14. TRAVEL ALLOWANCES

- 14.1 All Councillors receive a total remuneration package from the municipality that includes a travel allowance.
- 14.2 A Councillor has the discretion and may include a travel allowance in the total remuneration package.
- 14.3 A Councillor that elected to include a travel allowance within the total remuneration package structure must meet the following requirements:

14.3.1 The travel allowance may only be an amount up to the councillor's request on total remuneration package.

14.3.2 A logbook acceptable to the South African Revenue Service (SARS) must be kept recording the official and private kilometres travelled;

14.3.3 The travel allowance will be included in the IRP5 of a Councillor for Purposes of accounting to SARS;

14.3.4 On Income Tax Assessment, a Councillor must account to SARS for the use of the travel allowance.

14.4 Reimbursement Allowance for Travel: -

14.4.1 In addition to the travel allowance, as provided for under 16 above, a Councillor may claim for the official distances travelled within the Alfred Duma Local Municipal boundaries

14.4.2 Such official distances travelled shall be reimbursed in accordance with the applicable tariffs prescribed by the Department of Transport.

14.4.4 Employees participating in the travelling allowance scheme may request authority from the Municipal Manager to log kilometres travelled once they have exceeded their allocated monthly travel allowance of which the total kilometres (subsidized and additional) should not exceed 1000 km's per month

14.4.5 Section 56 employees shall be entitled to re-imbursement of official travelling costs within the Alfred Duma Local Municipal boundaries of which prior approval must be obtained from the Municipal Manager and should not exceed 1000 kilometres per month

14.4.6 Section 54 employees shall be entitled to re-imbursement of official travelling costs within the Alfred Duma Local Municipal boundaries of which prior approval must be obtained from the Mayor and should not exceed 1000 kilometres per month.

14.4.7 Engine Capacity for all vehicles claiming Travelling Allowance is capped at 3.0 litres.

15. OFFICIAL BUSINESS TRAVEL

15.1 Official business-related travel is travel for any purpose that directly relates to the business or job of a Councillor and excludes travelling between the place of residence and ordinary place of work or business.

15.2 For the purpose of calculating official business travel the following shall be applicable for Councillors (be applied to either local or district)

15.2.1 Local Municipalities

15.2.1.1 Full-time Councillors who are allocated offices at the municipal precinct shall have their ordinary place of business at the municipal precinct;

15.2.1.2 Part-time Proportional Representative Councillors shall similarly have ordinary place of business at the local municipal precinct, unless deployed to a specific ward;

15.2.1.3 Part-time Proportional Representative Councillors deployed to a specific ward shall have their ordinary place of business in that particular ward;

15.2.1.4 Part-time Ward Councillors shall have their ordinary place of business at their respective wards (ward office/home).

16. QUALIFICATION REQUIREMENTS OR ENTITLEMENT TO A REIMBURSEMENT FOR TRAVEL

16.1 A travel reimbursement may only be extended to Councillors that have included the travel allowance within the total remuneration package structure;

16.2 All travel on business of the municipality must be approved as such before a Councillor is entitled to claim for the travel reimbursement.

16.3 A Councillor will be reimbursed, in accordance with the kilometre tariff prescribed by the Department of Transport, for official business travel with their private vehicles;

16.4 A travel reimbursement claim must be supported by proof of such travel and related documents;

16.5 No travel claim will be paid, and no Councillor will be entitled to the reimbursement, if the travel is not related to the official business of the municipality.

17. PROCESS FOR TRAVEL REIMBURSEMENT

17.1 The duly prescribed claim form must be full completed by a Councillor;

17.2 The prescribed form must be submitted, within predetermined dates, to the Finance Department or the duly delegated official to be considered for reimbursement;

17.3 All claims will be reimbursed or paid with the next salary of such a Councillor;

17.4 A claim for a travel reimbursement must be supported by:-

17.4.1 A logbook acceptable to SARS recording the official kilometres travelled in a defined month;

17.4.2 Any relevant supporting documentation.

17.5 Staff members are permitted to submit claims three (3) days prior or by the latest thirty (30) days after any trip is undertaken on behalf of the municipality

18. COST OF MOVING / RELOCATION EXPENSES FOR SUCCESSFUL CANDIDATE

18.1 The council shall pay relocation costs in respect of Section 54 and 56 appointees be paid by the Municipality. The Municipality must obtain three quotations and shall pay the amount equals to the lowest quotation.

18.2 That should a staff member who have received benefit of relocation costs leave the employ of the Municipality within six (36) months from date of employment, such costs to be refunded to Council.

18.3 Should the service of the employee be terminated by council through no fault of his /her own, no refund shall be due to the Council.

18.4 In respect of each month or part thereof from the date of termination of such services to the date when the 36 months would have expired, refund 1/36 of the total cost of the assistance granted.

19. LEGAL REQUIREMENTS

In terms of Section 66 of the Municipal Finance Management Act No. 56 of 2003, the accounting officer of the municipality must report to the Council, in the format and for the period prescribed, all expenses relating to the officials/Councillor's salaries, allowances and benefits, separately disclosing (inter alia) travel, subsistence and accommodation allowances paid.

ALFRED DUMA LOCAL MUNICIPALITY



INDIGENT POLICY 2018/2019

PREAMBLE

Whereas - the municipality receives an equitable share contribution from National Treasury annually;

And whereas - the National Department of Provincial and Local Government has issued guidelines regarding indigent support;

And whereas - the municipal council wishes to give access to basic services for all of its communities;

Now therefore - the municipal council of Emnambithi/Ladysmith adopts the following.

TABLE OF CONTENTS

	Page
1. DEFINITIONS	4
2. PURPOSES OF THE INDIGENT POLICY.....	5
3. CRITERIA FOR QUALIFICATION.....	5
4. EXTENT OF INDIGENT SUPPORT.....	6
5. ADDITIONAL INDIGENT SUBSIDY.....	7
6. ARREARS ON INDIGENT ACCOUNTS.....	8
7. NON-COMPLIANCE OF HOUSEHOLDS REGISTERED AS INDIGENT	8
8. IMPLEMENTATION AND REVIEW.....	9

DEFINITIONS

1. In this policy, unless the context indicates otherwise –

‘basic municipal services’ means a municipal service that is necessary to ensure an acceptable and reasonable quality of life that if not provided, would endanger public health or safety or the environment. For the purposes of this framework “Basic Municipal Services” refers to the following services rendered and subsidized by municipality: electricity/ alternative energy and refuse removal.

‘child headed households’ means households headed by a person under the age of 21 years but with all other requirements for an indigent household as stated in this document.

‘Consumer’ means any occupier of premises to which the Council has agreed to provide or is actually providing any municipal service, or if there is no occupier, the owner of the premises concerned.

‘Household’ - refers to a house and its occupants regarded as a unit or the people in a family or other group that are living together in one house, including biological/foster/adopted children.

‘indigent’ means any household or category of households, including a child headed household, earning less than a combined gross income, as determined by the municipality during the compilation of annual budget in terms of a social and economic analysis of its area;

‘municipal tariff’ means a tariff for a service which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff.

‘occupier’ means any person who occupies any premises or part thereof, without regard to the title under which he or she so occupies.

‘property’ means any portion of land, of which the boundaries are determined within the jurisdiction of the Municipality;

Defined in terms of MPRA as:

- (a) immovable property registered in the name of a person;
- (b) a right registered against immovable property in the name of a person;

- (c) a land tenure right registered in the name of a person or granted to a person in terms of legislation or;
- (d) public service infrastructure.

‘property owner’ means a person in whose name property is registered/ the holder of a title deed.

‘restricted service levels’ - refers to metering and billing system that restricts the household’s consumption of free basic service to the predetermined level allocated to a particular household.

2. PURPOSE

The purpose of the indigent policy is to:

- a) provide basic services to the community within the financial and administrative capacity of the municipality;
- b) provide procedures and guidelines for the subsidisation of basic service charges to indigent households using the equitable share allocation, received from Central Government, and other budgetary provisions; and
- c) ensure affordability by subsidising tariffs calculated in terms of the municipality’s tariff policy and by setting appropriate service levels in accordance with the municipality’s service delivery plan.

3. CRITERIA FOR QUALIFICATION

- a) A household, where the combined gross income (**excluding foster care grant monies**) of all the members of the household, over the age of 18 years old, is equal to or less than two (2) state pension grant income;
- b) The applicant must be the owner of the property, for which he/she is registering as indigent, or an executor of the property for which he/she is registering as indigent (relevant documents will be required in this instance);
- c) The applicant should not jointly or severally own more than one property;
- d) The applicant must complete an official application form and provide the required documentary proof;

- e) The applicant must reside in the municipal area and may not conduct any commercial or industrial activity from the property;
- f) The applicant must be the full-time occupant and may not own any other property, whether within or outside of the municipal area;
- g) The subsidy will only be valid for 12 months, whereafter the applicant then must re-apply;
- h) The application will be approved by the municipality after the information supplied has been verified;
- i) All applicants shall be informed in writing with regard to the outcome of their application;
- j) An indigent applicant must immediately request de-registration if his/her conditions have changed to an extent that he/she no longer qualifies for the indigent support in terms of the criteria set out above;
- k) Council may send officials to the indigent applicant's premises or household for the purpose of conducting an on-site audit of the details provided as well as for indigent audit purposes.

4. EXTENT OF INDIGENT SUBSIDY

- a) Subsidies will be limited to rates, refuse removal and electricity.
- b) The extent of the monthly indigent support granted to indigent households must be based on budgetary allocations for a particular financial year and the tariffs determined for each financial year.
- c) The source of funding of the indigent subsidy is that portion of the equitable share contribution received from National Treasury and any additional provisions made by council and provided for in the annual operating budget.
- d) The subsidy will only be credited to the qualifying customer's accounts until the amount provided on the budget has been exhausted.

- e) Annual service charges on the indigent's account must automatically be converted to monthly instalments.
- f) In respect of electricity, all approved beneficiaries for the indigent support automatically qualify for Free Basic Electricity on a 20 amps supply under the following conditions:
 - i. on approval, the conventional electricity meter shall be replaced with a prepaid electricity meter;
 - ii. **Until such time, the conventional meter is replaced with a prepaid electricity meter, the applicant shall remain responsible for the consumption charges against that conventional electricity meter.**
 - iii. approved indigent registered household must receive electricity fully subsidised at a minimum of 50 kWh per month.
- g) In respect of refuse removal services, a full subsidy will apply.
- h) In respect of property rates, the applicant will receive a full subsidy.
- i) The accounts of indigent households will be exempted from interest.
- j) In cases where the consumers is/are minor/s due to circumstances, an appointed guardian may apply on behalf of the minor/s until such time that the minor/s are allowed to apply in terms section 3 (a) of this policy.

5. ADDITIONAL INDIGENT SUBSIDY

- a) Council may provide grants in lieu to certain categories of owners of domestic properties to alleviate poverty.
- b) Properties categorised as domestic with a market value less to be determined by Council annually will qualify for the indigence subsidy. The same benefits will apply as for application indigence. This subsidy will only apply if Council can afford the rebate for a financial year and write-off of arrears for qualifying households will only be approved for rates and refuse charges only.

- c) Council may approve, during the yearly budget process, relieve programmes for rates and refuse for owners who are medically boarded, pensioners and disabled persons and child headed households on application.

6. ARREARS ON INDIGENT ACCOUNTS

- a) Upon registration as an indigent household, the outstanding arrears on the account of the applicant must be kept pending for a period of up to six months after which it may be written off, interest may be calculated on the arrears as contemplated.
- b) If the applicant exits from the indigent support programme within the six (6) months period the outstanding arrears, written-off for the financial year concerned, must be re-introduced in the account and be subjected to the credit control and debt collection policy of the municipality.
- c) Council may from time to time decide to write-off indigent arrears. No further legal action must be taken on such indigent arrears.

7. NON-COMPLIANCE OF HOUSEHOLDS REGISTERED AS INDIGENT

- a) When the indigent applicant fails to comply with any of the conditions as required this policy in order to receive the indigent subsidy benefit, such person will forfeit his or her status as a registered indigent customer with immediate effect, and will thereafter be treated as an ordinary customer for the financial year concerned.
- b) The onus is on each registered indigent to advise the municipal manager of such failure to comply due to the changed circumstances
- c) The indigent status of an approved indigent customer will be reviewed from time to time, at intervals as determined by Council. This could be done by either physical audit or external verification check such as ITC – Credit Bureau and other means deemed appropriate. Should the requirements not be met, the subsidy for that consumer will be cancelled.

- d) If a registered indigent is found to have provided fraudulent information to the municipality in regard to any material condition for registration as an indigent, such person shall immediately be removed from the register of indigents, and shall be liable to repay the municipality with immediate effect all indigent relief received and debt written off from the date of such fraudulent registration. Moreover, such person may not again be considered for indigent relief for a period extending for five years beyond the financial year in which the misdemeanour was detected.
- e) Indigent support will be automatically terminated under the following circumstances:
- i. Upon the death of the applicant, unless the executor of the property re-applies and meets the qualifying criteria;
 - ii. At the end of a financial year;
 - iii. When the indigent applicant disposes of the property, either by sale or by means of donation.

8. IMPLEMENTATION AND REVIEW

The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Chief Financial Officer in the Department of Finance, once approved by Council.

The policy shall be reviewed annually as part of the budget process.

PROPOSED ALFRED DUMA LOCAL MUNICIPALITY INDIGENT POLICY 2018/2019

SUMMARY OF PROPOSED CHANGES

Red = Inserted

~~Strikethrough~~ = Deleted

Pg 5

- a) A household, where the combined gross income **(excluding foster care grant monies)** of all the members of the household, over the age of 18 years old, is equal to or less than two (2) state pension grant income;

Pg 7

- ii. **Until such time, the conventional meter is replaced with a prepaid electricity meter, the applicant shall remain responsible for the consumption charges against that conventional electricity meter.**

Tugue 1685
Cezelle - Policies are

SUMMARY OF PROPOSED CHANGES – CUSTOMER CARE, CREDIT CONTROL AND DEBT COLLECTION POLICY

Red = Inserted

Strikethrough = Deleted

Pg 12

- d) cost in terms of tariff of charges will be recovered from the cashier employed by the Alfred Duma Local Municipality if he or she accepts a post-dated/unsigned **or altered** cheque.

6.4.8 The Municipality or its authorised agent must, if administratively possible, issue a duplicate account to a customer on request. ~~on the condition that the average costs incurred for issuing the duplicate account may be recovered from the customer.~~

Pg 26 - 28

14. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBTORS)

Accounts receivables are stated in the Annual Financial Statements at the value of billing to consumers/ratepayers, less deduction for discounts given of rebates granted less a provision of doubtful debts.

Provision for doubtful debts is made, based on review of all accounts outstanding for a period that exceed 30 days at the financial year end. Contributions to the provision are calculated on a specific debt basis as at the reporting date of the year under review. The contribution to Impairment of debtors (provision for doubtful debt) is recognized as an expense in the statement of financial performance. When under recovery occurs during the financial year an additional contribution for impairment is made at year end.

- a) Consumer debtors (accounts receivable), and other debtors are stated at cost, less a provision for bad debt.
Significant financial difficulties of the debtor and default or delinquency in payments and all debt outstanding are considered indicators to determine that debtors are impaired.
- b) In terms with paragraph 62 of GRAP 104, *financial instruments*:
An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.
- c) Consumer debtors are evaluated at the end of each reporting date and impaired as follows:

Management criteria and assumptions for the calculation of debt impairment:

- Criteria to follow
 - Original interest rate is used (to work out discount rate).
 - 30 days payment terms.
 - Analysis of accounts per category (billing vs possible time it will take for the amount to be fully collected).
 - The total balance as disclosed is collectable in the next financial year.
- Methodology followed for the calculation of debt impairment.
 - To look at the billing vs payment for one financial year per category of consumer debtors.
 - To determine the time it takes to collect a month's billed amount.
Per category (in %)

When identifying irrecoverable debts, special focus is applied to the following categories of debtors, although debtor profiling is done for all outstanding debts for a period exceeding 90 days at the reporting date.

14.2 Sundry Debtors

Sundry debtors may be assessed individually like any other debt for impairment, to establish whether any evidence exist that they are not recoverable.

14.3 Sale of immovable property

To be dealt with in accordance with the terms of each Sale Agreement.

Pg 28 - 30

15. BAD DEBTS

15.1 Introduction

In terms of Section 97 (1)(d)(ii) of the Local Government: Municipal Systems Act, Act 32 of 2000 as amended and the Local Government Municipal Finance Management Act Section 64(f) the following policy on writing off the bad debts as irrecoverable will apply.

15.2 Preamble

The Municipal Finance Management Act (MFMA) Act 56 of 2003, aims to modernize budget and Financial Management Practices in municipality in order to maximize the capacity of the municipality's to deliver services to all residents, customers and users. It also give affect to the principles of transparency as required by Section 215 and 216 of the constitution.

The Council of the Municipality in adopting this policy on writing off bad debts recognizes its responsibilities as set out in Chapter 9 of the Local Government Municipality Systems Act, Act 32 of 2000 as amended.

15.3 Vision

The vision of the policy is to ensure that the debtors of the municipal Council are not over stated in the books of the Council.

To ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.

To ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.

To ensure that the Council of the municipality makes enough provision for bad debts in the budget.

To ensure that outstanding monies which have been outstanding for a long time after all attempts have been made in terms of recovering them should then be written off.

15.4 Statement

This policy aims to set down principles for the implementation of the writing off of bad debts and the provision for doubtful debts.

15.5 Objectives

The objective of this policy is to provide for:

- The identification of bad debts during the course of the financial year.
- The writing off of bad debts will be actioned where possible if prescribed.
- The proper delegation of powers to the Municipal Manager to write off bad debts up to a certain amount.

15.6 Identification of irrecoverable debts

When the municipality identifies customers whose debts appear to be irrecoverable even after the whole credit control and debt collection process have been followed in terms of trying to obtain payment, then such accounts should be regarded as irrecoverable unless:

Debt collection procedures may be terminated under the following circumstances:

- A balance being too small to recover, for economic reasons considering the cost of recovery.

- Prescription of debt.
- When a debtor with an inactive account cannot be traced by collectors.
- All reasonable notifications and legal actions to recover the outstanding amount have been exhausted.
- The amount outstanding is the residue after payment of divided in the rand from an insolvent estate.
- It is impossible to prove the debt outstanding.
- The outstanding amount cannot be revoked due to an administrative error by Council.
- The schedules setting out particulars of the debt and the reasons for abandonment or write off, together with a written request to approve it to be written off, must be presented to the Chief Financial Officer for submission to the Mayor, FPC, EXCO and Council for approval.

15.7 Writing off of irrecoverable debts

Where debts have been identified as irrecoverable the process to be followed for write off is as follows:

The Chief Financial Officer must prepare a list of all these debts showing the following:

- Consumer details (which is available).
- Irrecoverable amount broken down by service.
- Details of procedures followed to recover the debt. (Which in the case of amounts less than R500.00 it would be confirmed whether a final demand was sent or not, as according to credit control and debt collection policy accounts owing less than R500.00 may not be handed over as it is not financially viable). However with regards to amounts above R500.00. confirmation of hand over must be given and any other relevant documentation.
- This list has been completed, an item to the Executive Committee of Council must be submitted to obtain a Council Resolution to write off these debts.
- Reasons for identifying amounts as irrecoverable must be stated.
- Once Council resolution has been obtained, the Income section must draw journals to write off these amounts against the bad debt provision account.

15.8 Specific write offs

The Chief Financial Officer may submit a report to Council from time to time for specific uncollectable debt transactions such as:

- Liquidations in terms of section 89 of the Insolvency Act, Act 24 of 1936,
- Immovable properties bought back by Council

- Outstanding debts that are older than two years (2) that cannot be recovered during the transfer of immovable property, as in terms of section 118 (1)(b) of the Systems Act, Act 32 of 2000 as amended,
- A specific debt category, and or
- Penalties that have accrued in respect of Government outstanding accounts.

The report for specific write off must contain the following information:

- Full customer details,
- Reasons for each specific write off
- Amount to be written off must be broken down per service, and
- Details of procedures already exhausted in attempts to recover the outstanding amount.

Pg 30 – 31

16. ENFORCEMENT OF OTHER LEGISLATIONS & INCONSISTENCIES

- 16.1 When interpreting a provision of these By-laws, any reasonable interpretation that is consistent with the purpose of the Act as set out in Chapter 9 on Credit Control and Debt collection, must be preferred over any alternative interpretation, which is inconsistent with that purpose.
- 16.2 The provisions of any By-laws relating to the control of credit by the Municipality are hereby repealed insofar as they relate to matters provided for in these by-laws, provided that such provisions shall be deemed not to have been repealed in respect of any such Bylaw which has not been repealed and which is not repugnant to these By-laws on the basis as determined by the relevant By-laws.
- 16.3 If there is any conflict between these By-laws and any other By-laws of the Council, these By-laws will prevail.
- 16.4 Municipal support of the Policy.
- Each department of the Municipality will support this policy in terms of their powers and functions.
- 16.5 Refer to **paragraph 6.5.3.**
- Impairment of Bad debts will be calculate through the financial systems impairment programme which will be reviewed on an annual basis.
- ~~15.2 Should there be a payment in respect of the account which has already been written off, such monies must be allocated to the specific vote number designed for the recoverable debts, and will not be refunded or credit to the customer.~~

ALFRED DUMA LOCAL MUNICIPALITY

“The Municipality”



CUSTOMER CARE, CREDIT CONTROL AND DEBT COLLECTION POLICY

2018/2019

1. DEFINITIONS	4-5
2. <u>PREAMBLE</u>	5
3. <u>OBJECTIVES</u>	6
4. PRINCIPLES	6-7
5. DUTIES AND FUNCTIONS	7
5.1 The duties and functions of the Municipal Council are to:	7-8
5.2 The duties and functions of the Executive Committee are to:	8
5.3 The duties and functions of the Municipal Manager are to:	8-9
5.4 The duties and functions of communities, ratepayers and residents are to:	9
5.5 Duties and Functions of Ward Councillors and Political Parties are to:	9
6. CUSTOMER CARE POLICY	9
6.1 Customer Feedback	9-10
6.2 Handling of Complaints.....	10
6.3 Metering	10-11
6.4 Accounts and Billing	11-12
6.5 Enquiries, Appeals and Service Complaints	13
6.6 Payment Facilities and Methods	13-14
6.7 Performance Targets.....	14
7. CREDIT CONTROL POLICY	14
7.1 Service Application & Connection.....	14-16
7.2 Customer Screening and Securities/Deposits.....	16-17
7.3 Consolidated Accounts.....	17
7.4 Arrears	17-18
7.5 Incentives for Prompt Payments.....	18
7.6 Right to Access Premises.....	18
7.7 Different Categories of Debtors	18
8. DEBT COLLECTION POLICY	18
8.1 Responsibility for amounts	18-19
8.2 Enforcement Mechanisms	19-22
8.3 Cost of Collection	22
8.4 Rates Clearance.....	22
8.5 Arrangements for Settlement.....	23
8.6 Abandonment of Claims	23-24
9. CUSTOMER ASSISTANCE PROGRAMMES	24
9.1 Indigent Policy	24
9.2 Rates Rebates.....	24
9.3 Rates by Instalments	24
9.4 Indigent Subsidy	25

9.5 Relief in certain circumstances.....	25
10. REPORTING	25
11. PERFORMANCE EVALUATION.....	25
12. TERMINATION OF SERVICE OR RESTRICTION.....	25
13. UNAUTHORISED CONSUMPTION / TAMPERING / THEFT OF SERVICES	26
14. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBTORS.....	26-28
15. BAD DEBTS	28-30
16. ENFORCEMENT OF OTHER LEGISLATIONS & INCONSISTENCIES.....	30-31
17. DELEGATIONS	31

1. DEFINITIONS

For the purpose of these by-laws, any word or expressions to which a meaning has been assigned in the Act shall bear the same meaning in these by-laws and unless the context indicates otherwise.

“Account” means any account rendered for municipal services provided;

“Act” means the Local Government: Municipal System Act 32 of 2000 as amended;

“Authorised agent” means-

- a) Any person authorised by the Municipal Council to perform any act, function or duty in terms of, or exercise any power under these By-laws; and/or
- b) Any person to whom the Municipal Council has delegated the performance of certain rights, duties and obligation in respect of providing revenue services; and/or
- c) Any person appointed by the Municipal Council in terms of a written contract as a service provider to provide revenue services to customers on its behalf, to the extent authorised in such contract;

“Chief Financial Officer” means the Chief Financial Officer of Alfred Duma Local Municipality;

“Customer” means a person with whom the Municipality or its authorised agent has concluded an agreement for the provision of municipal services;

“Defaulter” means a customer/ owner who owes arrears;

“Household” means a traditional family unit consisting of a maximum of eight persons (being a combination of four persons over the age of eighteen and four persons eighteen years or younger);

“Municipality” means the Municipality of Alfred Duma Local Municipality (KZN 238);

“Municipal Council” means the municipal Council of Alfred Duma Municipality

“Municipal Manager” means the Accounting Officer of Alfred Duma Local Municipality;

“Municipal services” means services provided by the Municipality or its authorised agent, including refuse removal, electricity services, rates and sundries or any one of the above;

“Occupier” includes any person in actual occupation of the land or premises without regard to the title under which he occupies, and, in the case of premises sub-divided and let to lodgers or various tenants, shall include the person receiving the rent payable by the lodgers or tenants whether for his/her own account or as an agent for any person entitled thereto or interested therein;

“Owner” means-

- a) the person in whom is vested the legal title to a premises;
- b) in the case where the person in whom the legal title to a premises is vested is insolvent or dead, or is under any form of legal disability whatsoever, the person in whom the administration and control of such premises is vested as curator, trustee, executor, administrator, judicial manager, liquidator or other legal representative;
- c) in any case where the Municipality or its authorised agent is unable to determine the identity of such person, a person who is entitled to the benefit of the use of such premises or a building thereon;
- d) in the case of premises for which a lease agreement of thirty (30) years or longer has been entered into, the lessee thereof;
- e) in relation to Ingonyama Trust Board Members that owns and administers Ingonyama Trust land in terms of the KwaZulu Ingonyama Trust Act, (KwaZulu Act No 3 of 1994) (“ITA”).

“Property” means any portion of land, of which the boundaries are determined within the jurisdiction of the Municipality, defined in terms of Municipal Property Rates Act 6 of 2004 (“MPRA”) as:

- a) immovable property registered in the name of a person;
- b) a right registered against immovable property in the name of a person;
- c) a land tenure right registered in the name of a person or granted to a person in terms of legislation or;
- d) public service infrastructure.

2. **PREAMBLE**

WHEREAS section 96 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) requires a Municipality to adopt, maintain and implement a credit control, debt collection and customer care policy;

AND WHEREAS section 97 of the Systems Act prescribes what such policy must provide for;
NOW THEREFORE the Alfred Duma Local Municipality adopts the policies as set out in this document.

283

3. OBJECTIVES

- 3.1 **Customer Care:** To create a positive relationship and co-operation between persons liable for any payment and the Municipality, and where applicable, a service provider, and to provide a pro-active way to enhance the payment of services and in response to consumers' needs.
- 3.2 **Credit Control:** To implement procedures, which ensure the collection of debt, meeting service targets and the prevention of escalation of arrear debt, and to provide incentives for prompt payment, as well as ensuring limited risk levels by means of effective management tools.
- 3.3 **Debt Collection:** To provide procedures and mechanisms to collect all monies due to Council arising from services rendered and annual levies in order to ensure financial sustainability and delivery of municipal services in the interest of the community.
- 3.4 **Indigent Subsidy:** To facilitate and provide funding (financial assistance) for a basic level of services that is linked to the tariff policies to qualifying households which are poor. The subsidy and qualification criteria will be a separate policy referred to in the Customer Care, Credit Control and Debt Collection Policy as the Indigent Policy.

4. PRINCIPLES

- 4.1 The administrative integrity of the Municipality must be maintained at all times. The democratically elected Councillors are responsible for policy-making, while it is the responsibility of the Municipal Manager to ensure the execution of these policies.
- 4.2 All owners must complete an official application form, formally requesting the Municipality to connect them to service supply lines.
- 4.3 A copy of the application form, conditions of services and extracts of the relevant Council's credit control and debt collection policy and by-laws must be handed to every customer on request at such fees as may be prescribed by Council.
- 4.4 Billing is to be accurate, timeous and understandable.
- 4.5 The customer is entitled to reasonable access to pay points and to a variety of reliable payment methods.
- 4.6 The customer is entitled to an efficient, effective and reasonable response to appeals, and should suffer no disadvantage during the processing of a reasonable appeal.

284

- 4.7 Enforcement of payment must be prompt, consistent and effective.
- 4.8 Unauthorised consumption, connection and reconnection, the tampering with or theft of meters, service supply equipment and/or the reticulation network, and fraudulent activity will lead to disconnections, penalties, loss of rights and criminal prosecutions.
- 4.9 Incentives and disincentives may be used in collection procedures.
- 4.10 The collection process will be cost effective.
- 4.11 "Best Practices" will be pursued.
- 4.12 Performance results will be regularly and efficiently reported to Council.
- 4.13 Application forms will be used to categorise customers / owners and to determine whether the customer / owner qualifies for indigent subsidy, and the method to supply electricity via pre-payment or credit electricity meters.
- 4.14 Targets for performance in both customer service and debt collection will be set and pursued and remedies implemented for non-performance.
- 4.15 Although customer care and debt collection are inter-related, two separate sections must handle them on an independent basis.
- 4.16 The customer's debt must arise out of a legal framework and must be legally collectable. The principle of providing service in lieu of payment for arrear accounts is supported.

5. DUTIES AND FUNCTIONS

5.1 The duties and functions of the Municipal Council are to:

- a) Approve a budget consistent with the needs of communities, ratepayers and residents,
- b) Impose rates and taxes and to determine service charges, fees and penalties to finance the budget;
- c) Provide sufficient funds to give access to basic services for the poorest of the poor as referred to in the Indigent Support Policy.
- d) Provide for bad debt, in line with the payment record of the community, ratepayers and residents, as reflected in the annual financial statements of the Municipality;

- e) Set an improved target for debt collection, in line with acceptable accounting ratios and the abilities of the Municipal Manager;
- f) Approve a reporting framework for credit control and debt collection;
- g) Consider and approve by-laws to give effect to Council's policy;
- h) Monitor the performance of the Executive Committee and the Municipal Manager regarding credit control and debt collection;
- i) Revise the budget should Council's targets for credit control and debt collection not be met;
- j) Take disciplinary action against officials who do not execute Council policies and by-laws;
- k) Approve a list of attorneys / in-house counsel that will act for Council in all legal matters relating to debt collection;
- l) Delegate the required authorities to monitor and execute the credit control and debt collection policy to the Executive Committee and the Municipal Manager respectively;
- m) Approve an appropriate staff structure for credit control and debt collection;
- n) Appoint debt collection agents to assist the Municipal Manager in the execution of his/her duties, if required, and
- o) Provide funds for the training of staff.

5.2 The duties and functions of the Executive Committee are to:

- a) Ensure that the Council's budget, cash flow and targets for the debt collection are met and executed in terms of the policy and relevant by-laws;
- b) Monitor the performance of the Municipal Manager in implementing Council's policy and by-laws;
- c) Review and evaluate the policy and by-laws in order to improve the efficiency of the Council's credit control and debt collection procedures, mechanisms and processes; and
- d) Report to the Council.

5.3 The duties and functions of the Municipal Manager are to:

- a) Implement good customer care management;
- b) Implement the Council's credit control and debt collection policy;
- c) Install and maintain an appropriate accounting system;
- d) Bill consumers appropriately;
- e) Demand payment on due date;
- f) Raise penalties on defaulter's accounts;
- g) Ensure that appropriate payment is received;
- h) Collect outstanding debt;
- i) Implement "Best Practices" procedures

- j) Provide different payment methods;
- k) Determine customer care, credit control and debt collection measures
- l) Determine work procedures for public relations, arrangements, disconnections of services, summonses, attachments of assets, sales in execution, writing off of bad debts, sundry debtors and legal processes;
- m) Appoint firm/s of attorneys to complete the legal process (i.e. attachments and sale in execution of assets, emolument attachment orders etc.);
- n) Set performance targets for staff;
- o) Appoint staff to execute Council's policy and By-laws in accordance with Council's staff policy;
- p) Delegate certain functions to Heads of departments;
- q) Determine control procedures;
- r) Monitor contracts with Service Providers in connection with credit control and debt collection; and
- s) Report to the Executive Committee and Council.

5.4 The duties and functions of communities, ratepayers and residents are to:

- a) Fulfil certain responsibilities, as brought about by the privilege to use and enjoy public facilities and municipal services;
- b) Pay service fees; rates on property and other taxes, levies and duties imposed by the Municipality;
- c) Observe the mechanisms and processes of the Municipality in exercising their rights;
- d) Allow municipal officials reasonable access to their property to execute municipal functions;
- e) Comply with the by-laws and other legislation of the Municipality;
- f) Refrain from tampering with municipal services and property.

5.5 Duties and Functions of Ward Councillors and Political Parties are to:

- a) Hold regular ward meetings;
- b) Adhere to and convey Council's policies to residents and ratepayers; and
- c) Adhere to Council's Code of Conduct for Councillors.

6. CUSTOMER CARE POLICY

6.1 Customer Feedback

- 6.1.1 The Municipality will, within its financial and administrative capacity, conduct an annual process of compiling its budget, which will include revised targets for credit control.

- 6.1.2 Council's Customer Care, Credit Control and Debt Collection Policy, will be available in Zulu, English and Afrikaans, and will be made available by general publication and on specific request, and will also be available at Council's offices for perusal.
- 6.1.3 Council will endeavour to distribute a regular newsletter, which will give prominence to customer care and debt issues.
- 6.1.4 Ward Councillors will be required to hold regular ward meetings, at which customer care and debt issues will be given prominence.
- 6.1.5 The press will be encouraged to give prominence to Council's Customer Care and Debt issues, and will be invited to Council meetings where these are discussed.

6.2 Handling of Complaints

6.2.1 Council aims to establish:

- a) A customer care unit;
- b) A centralised complaints database to enhance co-ordination of complaints, their speedy resolution and effective communication with customers;
- c) Appropriate training for officials dealing with the public to enhance communications and service delivery; and
- d) A communication mechanism to give Council feedback on service, debt and other issues of concern.

6.3 Metering

- 6.3.1 The Alfred Duma Local Municipality reserves the right to supply electricity to any consumer by means of a pre-paid or conventional meter, whichever is deemed more economical.
- 6.3.2 The Municipality or its authorised agent must in respect of municipal services that can be metered, endeavour to meter all customer connections.
- 6.3.3 All meters will be read on a quarterly (three monthly) basis. If a service is not measured, the Municipality or its authorised agent may, determine the amount due and payable by a customer for municipal services supplied to him/her in the following manner:
- a) Shared consumption; or if not possible
 - b) Estimated / average consumption.
- 6.3.4 Customers are entitled to request verification of meter readings and accuracy, but may be held liable for the cost thereof as per Council's approved tariff of charges. "Meter estimation is calculated using six months prior data in the following way:

Total days for the prior six months is totalled (using the applicable reading dates) as well as the total consumption for the prior six months. The total consumption is then divided by the total days to obtain a daily average.

The daily average is multiplied by the applicable billing days in the current period to obtain the meter estimated consumption"

6.3.5 Customers will be informed of meter replacements as and when needed.

6.3.6 If a service is metered but it cannot be read due to financial and human resource constraints or circumstances out of the control of the Municipality or its authorised agent, and the customer is charged for an average consumption, the account following the reading of the metered consumption must articulate the difference between the actual consumption and the average consumption, and the resulting credit or debit adjustment. If the meter reading problem cannot be resolved, the credit electrical meter will be replaced with a pre-paid electricity meter.

6.4 Accounts and Billing

6.4.1 The customer may receive more than one account for different municipal services if they are accounted for separately.

6.4.2 Accounts will be produced in accordance with the meter reading cycle and due dates are linked to the statement date.

6.4.3 Accounts will be rendered monthly to customers at the address last recorded with the Municipality or its authorised agent.

6.4.4 Failure to receive or accept an account does not relieve a customer of the obligation to pay any amount due and payable (i.e. it remains the client's responsibility to ascertain any amounts payable).

6.4.5 Accounts must be paid not later than the last date for payment specified in such account.

6.4.6 Where an account is not settled in full, any lesser amount tendered to and accepted shall not be deemed to be in final settlement of such an account.

6.4.7 Where any payment made to the Municipality or its authorised agent by negotiable instrument is later dishonoured by the bank, the Municipality or its authorised agent:

- a) may recover the average bank charges incurred relating to dishonoured negotiable instruments against the account of the customer; and

- b) shall regard such an event as default on payment, and services will be disconnected immediately.
- c) no further cheque payments will be accepted after a cheque is returned by the bank for whatever reason.
- d) cost in terms of tariff of charges will be recovered from the cashier employed by the Alfred Duma Local Municipality if he or she accepts a post-dated/unsigned or altered cheque.

6.4.8 The Municipality or its authorised agent must, if administratively possible, issue a duplicate account to a customer on request.

6.4.9 Accounts must contain at least the following:

- a) The amount due and payable for any other municipal service;
- b) The applicable tariff;
- c) The amount in arrears, if any;
- d) The interest payable on any arrears, if any;
- e) Collection charges if any
- f) The final date for payment;
- g) The methods, places and approved agents where payment may be made.

6.4.10 Every refuse tariff will be consolidated with the respective rates account per erf, and provided to owners of properties, not tenants – CONSOLIDATED ACCOUNTS WILL NOT BE UNCONSOLIDATED.

6.4.11 New services and rates accounts will only be entered into with the owner of the property where the services is required, and the installation of a pre-paid electricity meter is compulsory.

6.4.12 In the event of a spouse passing on, the remaining spouse will not be regarded as a new owner for the purpose of paying connection fees and converting to pre-paid electricity with the provision that spouse inherit the property or is the co-registered owner.

6.4.13 The Municipality may –

- a) Consolidate any separate accounts of persons liable for payments to the Municipality;
- b) Credit a payment by such a person against any account of that person; and
- c) Implement any of the debt collection and credit control measures provided for in terms of the Local Government: Municipal Systems Act 32 of 2000 in relation to any arrears on any of the accounts of such a person.

6.5 Enquiries, Appeals and Service Complaints

- 6.5.1 If a customer believes that his/her account is inaccurate, he/she can lodge a query with the Municipality for investigation of this account in the prescribed format, as set by the Municipality. Where necessary the relevant alterations will be effected within 30 days.
- 6.5.2 A query or complaint must be accompanied by the payment of the average of the last three months' accounts where history of the account is available or an estimated amount provided by the Municipality before payment due date until the matter is resolved.
- 6.5.3 The Municipality or its authorised agent will:
- a) Investigate or cause the query or complaint to be investigated;
 - b) And, must inform the customer in writing, sms or telephonically of its finding within one month after the query or complaint was registered.
- 6.5.4 Failure to make such agreed interim payment would make the customer liable for disconnection or other normal credit control procedures, together with the applicable fees and converting to pre-paid electricity at the owners cost.
- 6.5.5 A customer may appeal against a finding of the Municipality or its authorised agent in terms of section 6.5.1 in writing, on the prescribed form.
- 6.5.6 An appeal and request in terms of subsection 6.5.5 must be made in writing and lodged with the Municipality within (twenty-one) 21 days after the customer became aware of such finding referred to in section and must:
- a) Set out the reasons for the appeal; and
 - b) Be accompanied by any security determined for the testing of a measuring device, if applicable.

6.6 Payment Facilities and Methods

- 6.6.1 The Municipality or its authorised agent will operate and maintain suitable pay-point facilities, and these facilities will be accessible to all users for payment of accounts and pre-paid electricity purchases.
- 6.6.2 The Municipality will, at its discretion, allocate a payment made by a debtor of an amount less than the total amount due in order to service debts. A debtor may not specify that a payment is for a specific portion or service of the account. The payment may be allocated to any hand-over account for legal collection and the current account disconnected for arrears.

6.6.3 The Municipality may, with the consent of a customer, approach an employer to secure a debit or stop order arrangement.

6.6.4 The customer will acknowledge, in the customer agreements that the use of customer agents in the transmission of payments to the Municipality is at the risk and cost of the customer. This is also applicable for the transfer time of the payment, and payment will only reflect for credit control purposes once credited and receipted to the specified debtors account.

6.7 Performance Targets

6.7.1 Council will create a mechanism wherein these targets are assessed. Council's performance is evaluated and remedial steps taken.

6.7.2 Income Collection Targets

Council must create targets that include reduction in present monthly increase in debt, in line with performance agreements determined by Council.

6.7.3 Customer Service Targets

Council must create targets that would include:

- a) Response time to customer queries.
- b) Date of first account delivery to new customers.
- c) Reconnection time elapse.
- d) Meter reading cycle.

6.7.4 Administrative Performance

Council is to create targets that will include:

- a) Cost efficiency of debt collection;
- b) Query and appeal periods; and
- c) Enforcement mechanism ratios.

7. CREDIT CONTROL POLICY

7.1 Service Application & Connection

- a) All owners of properties will be required to sign an agreement governing the supply and cost of municipal services. The Municipality will progressively consolidate all service accounts to the owners account. Pre-Paid Electricity meters will be installed for all new connections.

- b) All identified Government properties will be required to enter into a service contract for rates and refuse. The contract for rates and services will only be entered into in the name of the registered owner by the identified authorised official.

7.1.1 Installation of pre-paid electricity meters if electricity supplied

- a) That any transfer of property to new owners be subject to an installation of a pre-paid electricity meter (cost paid by the owner). That any defaulter on the disconnection list, be equipped with a pre-paid electricity meter (cost paid by the owner).
- b) Any credit electricity meter, where access to read the meter is restricted by the owner will be replaced by a pre-paid electricity meter (cost to be paid by the owner).
- c) Faulty credit meters will be replaced with the pre-paid wherever practical (cost to be borne by council).
- d) Credit meter customers (residential and commercial) using less than 200 kWh per month be replaced with a pre-paid meter at the discretion of the Department of Infrastructure and Services (cost to be borne by Council).
- e) Bulk replacement of credit meters is initiated to areas where it is deemed impractical to continue reading these meters due to the high concentration of pre-paid meters in existence (cost to be borne by council).
- f) Installation of Smart Metering will be implemented by Council. All electricity meters to be converted to Smart Metering after a feasibility study is done (cost to be borne by Council).
- g) The electricity meters of domestic customers in Alfred Duma Local Municipality jurisdiction area using in excess of 1 000 kWh per month (based on a 12-month average) be replaced with smart meters and be placed on a Time of Use tariff (cost to be borne by Council).

7.1.2 Prior to the signing of these agreements, customers will be entitled to receive the policy document of the Council on a request at a cost determined by Council.

7.1.3 On signing of the agreement, customers will receive a copy of the agreement for their records.

7.1.4 All identified Government properties will be required to enter into a service contract for rates and refuse. The contract for rates and services will only be entered into under the name of the registered owner identified by the authorised official.

7.1.5 In the agreement customers will acknowledge liability for costs of collection, interest, penalties and any other cost contained in the by-laws to collect outstanding monies, in the event of late payment.

- 7.1.6 Existing customer will be required to sign new agreements as determined by the Municipal Manager from time to time to update the Municipal records.
- 7.1.7 With respect to residential registrations, the owner of the property must produce the following documents:
- a) Certified copy of identity document or passport
 - b) A letter from the transferring attorney confirming ownership or copy of the Title Deed and if not available an extract from the Deeds Office be attached to the contract.
 - c) Rateable details or rate number of the property if available.
- 7.1.8 With respect to commercial registrations the following documents must be produced:
- a) The Certificate of Registration or Incorporation of the Company, CC, Trust, or Partnership. In addition, in the case of company, the CM29;
 - b) Certified copy of the identity document or passport of all of the directors, members, trustees or owners in the case of a sole proprietor, who would open an account.
 - c) Letters of authority in the case of a partnership or sole proprietor.
 - d) The Council reserves the right to request personal cashback deposit from one or more of the Directors / Members of a company or CC whenever it deems this to be appropriate.
 - e) Proof that the business is duly registered as a business levy payer or is exempted there from.
 - f) VAT registration numbers if applicable.
 - g) Proof of ownership of property.
- 7.1.9 All commercial and domestic new connections will be in the owner's name only.
- 7.2 Customer Screening and Securities/Deposits**
- 7.2.1 All applicants will be checked for credit-worthiness. This will include checking information from banks, credit bureaus, local authorities, trade creditors, employers and references supplied by consumers.
- 7.2.2 Security deposits in cash acceptable to the Municipality will be required, and may vary according to the risk. The average deposit for new connections will be determined on application for services to be rendered.
- 7.2.3 Deposits and level of services can vary according to the credit-worthiness or legal category of the applicant.

- 7.2.4 The Municipality can increase deposits at any time and at the sole discretion of the Municipality not to be more than two and half times the monetary value of the most recent consolidated accounts for services of the premises for which an application is made.
- 7.2.5 An amount deposited with the Municipality shall not be regarded as being in payment or part payment of an account due for services rendered.
- 7.2.6 No interest shall be payable by the Municipality or its authorised agent on any deposit held.
- 7.2.7 On the termination of the agreement the amount of the deposit less any outstanding amount due to the Municipality will be refunded to the consumer on application, meeting all requirements. A deposit shall be forfeited to the Municipality if the customer has not claimed it within 12 (twelve) months of termination of agreement.
- 7.3 Consolidated Accounts**
- Customers will receive an accurate bill from the Municipality. Such bill will consolidate all service costs for that property, and the Municipality may credit all payments received from such a person to any service and order of preference as determined by Council from time to time.
- 7.4 Arrears**
- The Municipality shall have the right to restrict or discontinue the supply of services or to implement any other debt collection action necessary due to late or non-payment of accounts, relating to any consumer, owner or property. All accounts which are in arrears below R500.00 will be notified to make the necessary payment, failure to make payment will result in the electricity supply being blocked or restricted. If the customer further neglects to payment, the electricity supply will be disconnected.
- 7.4.1 Electricity supply will be blocked, restricted or disconnected at the discretion of the Municipality for any arrears with any service attached to the lot or erf exceeding R500.00 or as decided by the Credit Control Action Committee from time to time as deemed necessary.
- 7.4.2 Interest charged – refer to paragraph 8.1.2.
- 7.4.3 Any dispute, concerning any amount charged between the Municipality and the person referred to, will result in the same procedures being applied as indicated in paragraph 6.5.
- 7.4.4 A staff member of the Municipality may not be in arrears to the Municipality for rates and service charges for a period longer than three (3) months, and the Municipality may deduct any outstanding amounts from a staff member's salary after this period.

- 7.4.5 A Councillor may not be in arrears for rates and service charges for a period longer than three (3) months.

7.5 Incentives for Prompt Payments

- 7.5.1 The Municipal Council may institute incentive schemes to encourage prompt payment.
- 7.5.2 Such incentive schemes, if introduced, will be reflected in annual budgets as additional expenditure.

7.6 Right to Access Premises

- 7.6.1 The owner and /or occupier of property is to allow an authorised representative of the Municipality access at all reasonable hours to the property in order to read, inspect, install or repair any meter or service connection for reticulation, or to disconnect, stop or restrict, or reconnect, the provision of any service.
- 7.6.2 The owner is responsible for the cost of relocating the existing electricity meter if satisfactory access is not possible.
- 7.6.3 If a person fails to comply with 7.6.1 the Municipality or its authorised representative may:
- a) By written notice require such person to restore access at his/her own expense within a specified period.
 - b) If it is the opinion that the situation is a matter of urgency, without prior notice restore access and recover the cost from such person.
 - c) All credit electricity meters without access will be replaced by a pre-paid electricity meter at the cost of the owner.

7.7 Different Categories of Debtors

Customers will be categorised according to certain classifications based on the type of entity, use of services, levels of services, infrastructure requirements and applicable tariffs and risk levels.

8. DEBT COLLECTION POLICY

8.1 Responsibility for amounts

In terms of Section 118(3) of the Systems Act, an amount due for municipal service fees, surcharge on fees, property rates and other municipal taxes, Levies and duties is charge upon the property in connection with which the amount is owing and enjoys preference over mortgage bond registered against the property. Accordingly –

- a) the owner of such property shall be liable for charges incurred in connection with such property and all municipal debts must be paid by the owner of such property without prejudice to any claim or right of recovery which the Municipality may have against another person.

8.2 Enforcement Mechanisms

8.2.1 Interruption of Service

- a) Customers who are in arrears with their municipal account and who have not made arrangements with Council will have their supply of electricity and other municipal services suspended or disconnected on a fourteen (14) days notice. A pre-paid electricity meter will be installed at the owner's expense based on the tariffs as set by Council at the beginning of the financial year.
- b) Council reserves the right to deny, restrict, or block the sale of electricity to customers who are in arrears with their rates or other municipal charges.
- c) The disconnection of services may commence when the municipal account is one (1) day overdue.
- d) Upon payment of arrears, or the conclusion of acceptable arrangements for term payment, the service will be reconnected as soon as possible –
 - i. If paid before 13:00 reconnection will be on the same day (noting emergency power failures take preference).
 - ii. If paid after 13:00 reconnection will be on the next working day (noting emergency power failures take reference).
 - iii. If the electricity service (cable or meter) has been removed, it will be treated as a new connection, and only be reconnected as soon as possible when all outstanding debt is paid.
 - iv. The Credit Control Manager has the right to evaluate and reconnect electricity supply outside of the above prescribed times in case of emergency as and when required, with an after hour reconnection fee applicable.
- e) The cost of the restriction or disconnection, and the reconnection, will be determined by tariffs approved by Council, and will be payable by the customer.
- f) The deposit of any defaulter will be adjusted to be brought into line with relevant policies.
- g) If the tenant of any property is in arrears for sixty (60) days or more with their accounts, the electricity and refuse account will be consolidated with the owner's account and the cable or meter (conventional or pre-paid) will be removed. Reconnection will only take place once all arrears have been settled and a new contract entered into by the owner. The reinstating of the service will be added to the waiting list for services.

8.2.2 Interest and Penalties

Interest will be charged in terms of the Local Government: Municipal Systems Act section 75A(b) and Local Government: Municipal Finance Management Act sections 64(2)(g) and 97(l)(e) on all accounts not paid by the due date in accordance with applicable legislation, and Council's yearly Budget Resolution. Penalties will be charged on handed over accounts in accordance with Council's yearly Budget Resolution.

8.2.3 Personal Contact

- a) The costs of telephonic contact by (fax, e-mail, SMS or otherwise) whichever is deemed most cost effective, will be recovered from the recipient of such notice.
- b) Approved agents' costs when collecting on behalf of Council calling on clients will be recovered from each debtor.
- c) Council will endeavour, within the constraints of affordability, to make personal or telephonic contact with all arrear debtors to encourage their payment, and inform them of their arrears state, and their rights (if any) to conclude arrangements or to indigence subsidies, other related matters and will provide information on how and where to access such arrangements or subsidies. It remains the responsibility of the customer to provide and update contact details.
- d) Such contact is not a right for debtors to enjoy and disconnection of services and other collection proceedings will continue in the absence of such contact for whatever reason.
- e) All cost incurred for recovery of arrear debt is payable immediately by the customer/owner, before reconnection takes place.

8.2.4 Legal Process /Use of Attorneys / Use of Credit Bureaus

Council may, when a debtor is sixty (60) days in arrears, commence legal process against that debtor. This process may involve final demands, summonses, court trials, warrant of execution judgements, garnishee orders and/or sales in execution of movable and immovable property. Government Properties will only be handed over to Legal if all Inter Governmental Relations (IGR) process have failed.

- a) Council will exercise strict control over this process, to ensure the accuracy and legality within it, and will require regular reports on progress from outside parties, be they attorneys or any other collection agents appointed by Council or the in-house legal section.
- b) Council will establish procedures and codes of conduct with these outside parties collecting arrear debt on behalf of Council.
- c) Garnishee orders, in the case of employed debtors, are preferred to sale in execution, but both are part of Council's system of debt collection procedures.
- d) All steps in the credit control procedure will be recorded for Council's records and for the information of the debtor.

- e) All costs of this process are for the account of the debtor.
- f) Individual debtor accounts are protected and are not subject of public information. However, Council may release debtor information to credit bureaus. This release will be in writing or by electronic means.
- g) Council may consider the cost effectiveness of the legal process, and will receive reports on relevant matters, including cost effectiveness.
- h) Council may consider the use of agents, and innovative debt collection methods and products. Cost effectiveness, the willingness of agents to work under appropriate codes of conduct and the success of such agents and products will be part of the agreement Council might conclude with such agents or service providers; and will be closely monitored by Council.
- i) Customers will be informed of the powers and duties of such agents or service providers and their responsibilities including their responsibility to observe agreed codes of conduct.
- j) Any agreement concluded with an agent, product vendor or service provider, shall include a clause whereby breaches of the code of conduct by the agent or vendor constitute a breach of contract.
- k) On default by a owner, the tenant will be the debtor of last resort.

8.2.5 Estate Accounts Collection

- a) The accounts of debtors who are insolvent, under administration or deceased are dealt with according to normal legal practices by collection staff of the municipality. Unsuccessful claims must be submitted to the Mayor, FPC, EXCO and Council for approval to be written off.
- b) Estates without formalised legal status: In numerous cases the head of a household has died without leaving a will indicating to whom ownership of the family residence is to be transferred upon the event of his/her death or the owner of the property has abandoned his/her family to fend for themselves. As these exceptions are not provided for in the normal legal practice, the following process will be followed in such cases:
 - i. The remaining family must report the situation to the Municipality's collection office, who will require the relevant documentation to be obtained by the family e.g. a death certificate, and an order of the local Magistrate allocating right of ownership to someone of the surviving family in the case of a deceased estate; or an order of the local Magistrate allocating right of ownership to someone in the abandoned family.

- c) In all of these cases, extension for the payment of the arrears as at the date of notification will be given by the debt collectors of the Finance department, disconnected electricity will be reconnected and the remaining family will be expected to pay all amounts levied on monthly current accounts in excess of the amount of the extension until such time as the matter has been finalised. This will prevent any further service restrictions or collection actions at the residence whilst the family are in the process of legalising ownership of the property.
- d) As soon as ownership has been officially allocated by the Magistrate, the documentation must be presented to the Municipality's collection office, who will then change the name of the account to that of the new owner. The new owner will also be encouraged to make an arrangement for the payment of the arrears to prevent credit control and collection action from being taken by the Municipality. *Alternatively*, if the family qualifies to be registered for assistance in terms of the municipality's Indigent Policy, they may apply for that, and after registration their arrears shall be dealt with in terms of that policy.
- e) Unsuccessful claims must be submitted to the Mayor, FPC, EXCO and Council for approval to be written off.
- f) This process is intended to accommodate families and child headed households who may also qualify to be registered in terms of the Council's Indigent Policy.

8.3 Cost of Collection

All costs of legal processes, including interest, penalties, service discontinuation costs and legal costs (charged at point of hand over through legal processes) associated with credit control are for the account of the debtor and should reflect at least the average cost of the particular action.

8.4 Rates Clearance

On the sale of property in the municipal jurisdiction, Council shall withhold a rates clearance certificate until all rates and service charges are paid in full and final settlement of the relevant account for the two years preceding the request for the rates clearance certificate. The conveyancer, seller, and purchaser must acknowledge in writing that the seller and purchaser were informed of any arrears prior to the two years applicable in terms of section 118 of the Systems Act, and indicate full contact details and identity numbers for the seller and purchaser.

Arrears will be for the account of the last registered owner.

8.5 Arrangements for Settlement

8.5.1 If a customer cannot pay his/her outstanding account in full with the municipality, he/she may enter into an extended term of payment with the municipality after the following is done:

- a) Signing of surety/arrangement form,
- b) Signing of an acknowledgement of debt form,
- c) Submitting a copy of the owner/s I.D/s, and/or executorship letter if owner is deceased.
- d) Submitting proof of income

8.5.2 He/she must pay the current portion of the account in full and a period be set for the outstanding amount to be paid as may be determine by the Accounting Officer or the Chief Financial Officer.

8.5.3 Any arrangement for payment of arrears in terms of this Policy must be negotiated within the following framework or as per the provision of clause 6.4.2:

a) Private Households:

- An amount equal to 10% of the total outstanding debt shall be payable upfront as deposit.
- The period of the arrangement shall be determined by the Accounting Officer or the Chief Financial Officer, however the debtor shall not be allowed to redeem arrears over a period in excess of 12 months.
- In cases where the debtor indicates that the calculated payment is not affordable, the terms of arrangement shall be at the Accounting Officer's discretion or his authorised representative.
- Once the debtor has entered into an arrangement with the municipality in terms of this policy, all credit control actions, including legal processes, will be suspended until the debt is settled in full. The debtor will also bear any cost incurred prior to entering into an arrangement with the municipality.

b) Businesses

- No arrangement will be made for businesses.

8.5.4 If the debtor breaches any material term of an arrangement, the total outstanding balance including interest raised on such account, shall immediately become due and payable to the municipality and any applicable action to recover the debt in terms of this policy shall be applied immediately.

8.5.5 No arrangement will made for a debtor with electricity consumption arrears, unless he/she agrees to the conversion to prepayment electricity meter, if and when implemented the cost of which, and the total arrears, will be paid off, as Council deems appropriate, either by:

- a) adding the debt to the arrears bill and repaying it in full or over arrangement period; or
- b) adding it as a surcharge to the prepaid electricity cost, repaying it with each purchase of electricity until the debt is settled.

8.6 Abandonment of Claims

8.6.1 The Municipal Manager must ensure that all cost effective avenues are utilised to collect the Municipality's debt.

- 8.6.2 There are some circumstances that allow for the valid termination of debt collection procedures:
- a) The insolvency of the debtor, whose estate has insufficient funds;
 - b) A balance being too small to recover, for economic reasons considering the cost of recovery;
 - c) Where Council deems that a customer or group of customers are unable to pay for services rendered;
 - d) Prescription of debt;
 - e) When a debtor with an inactive account cannot be traced;
 - f) All reasonable notifications and legal actions to recover the outstanding amount have been exhausted.
 - g) The amount outstanding is the residue after payment of dividend in the rand from an insolvent estate;
 - h) It is impossible to prove the debt outstanding; or
 - i) The outstanding amount cannot be recovered due to an administrative error by Council.

8.6.3 The Municipality will maintain audit trails in such an instance, and document the reasons for the abandonment in respect of the debt. The schedules setting out particulars of the debt and the reasons for abandonment or write off, together with a written request to approve it to be written off, must be presented to the Chief Financial Officer for submission to the Mayor, FPC, EXCO and Council for approval.

9. CUSTOMER ASSISTANCE PROGRAMMES:

9.1 THE INDIGENT POLICY WILL BE REFERRED TO AS A SEPARATE POLICY FROM 2016/2017.

9.2 Rate Rebates

9.2.1 Property used exclusively for residential purposes may qualify for a rebated rate determined annually by Council.

9.2.2 A rate rebate may be granted according to certain qualifying criteria to social pensioners or the receiver of a state disability grant and/or any category of customer, as determined by Council from time to time.

9.3 Rates by Instalments

Customers will pay the property rates and refuse account monthly, over eleven (11) months at no interest, on the condition that there are no rates outstanding in respect of the previous period and that the rates are paid in full prior to the next rates cycle.

9.4 Indigent Subsidy

The relief conditions for rates and services for Indigent Customers will be stipulated in the policy named the Indigent Policy of the Alfred Duma Local Municipality.

9.5 Relief in certain circumstances

Council may approve during the yearly budget process relieve for rates and refuse for owners who are medically boarded, pensioners and disabled persons and child headed households on application.

10. REPORTING

10.1 The Chief Financial Officer shall report monthly to the Municipal Manager in a suitable format to enable the Municipal Manager to report to Council. This report shall contain particulars on:

- a) Cash flow information for capital and operating accounts, and the combined situation, showing Council's actual performance against its cash flow budgets.
- b) Cash collection statistics, showing high level debt recovery information (numbers of customers; enquires; default arrangements; growth or reduction of arrear debtors; ideally divided into wards, business (commerce and industry) domestic, state, institutional and other such divisions.
- c) Council's ongoing income and expenditure statements, comparing both billed income and cash receipt income, against ongoing expenditure in both the capital and operating accounts.

10.2 If in the opinion of the Chief Financial Officer, Council will not achieve cash receipt income equivalent of the income projected in the annual budget as approved by Council, the Chief Financial Officer will report this with motivation to the Municipal Manager who will, if he agrees with the Chief Financial Officer, immediately move for a revision of the budget according to realistically realisable income levels.

11. PERFORMANCE EVALUATION

Refer – Performance Targets, paragraph 6.7.

12. TERMINATION OF SERVICE OR RESTRICTION

Refer – Interruption of services, paragraph 8.1.1.

13. UNAUTHORISED CONSUMPTION / TAMPERING / THEFT OF SERVICES

- 13.1 Any person (natural or juristic) found to be illegally connected to municipal services, tampering with meters, the reticulation network or any other supply equipment, or committing any unauthorised actions associated with the supply of municipal services, as well as theft and damage to Council property/infrastructure, will be prosecuted and/or held liable for penalties as contained in the Municipal by-laws.
- 13.2 Council will immediately terminate the supply of services to such a customer should such conduct as outlined above be detected.
- 13.3 The total bill owing, including: penalties, assessment of unauthorised consumption and discontinuation and reconnection fees, and increased deposits as determined by Council if applicable, becomes due and payable before any reconnection may be approved. No arrangements will be entered into unless authorised by the Municipal Manager or his/her delegate.
- 13.4 Council will maintain monitoring systems and teams to detect and survey customers who are undertaking such illegal actions.
- 13.5 Council may distinguish in its penalties between cases of vandalism and/or cases of theft.
- a) Council reserves the rights to lay charges and/or to take legal action against both vandals and thieves;
 - b) Any person failing to provide information or providing false information to the Municipality may face immediate disconnection.
- 13.6 The owner of the property remains liable and responsible for all instances of unauthorised reconnections and disconnections, tampering, damage or theft of Municipal Infrastructure, and services installed in the property. Further, the onus is upon the owner to ensure that tenants on the premises or the property refrain from such acts.
- 13.7 Unauthorised reconnection of/or tampering with a service supply is prohibited and shall constitute a criminal offence that will result in legal action taken against the owner and disconnection of municipal services.

14. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBTORS)

- 14.1 Accounts receivables are stated in the Annual Financial Statements at the value of billing to consumers/ratepayers, less deduction for discounts given of rebates granted less a provision of doubtful debts.

Provision for doubtful debts is made, based on review of all accounts outstanding for a period that exceed 30 days at the financial year end. Contributions to the provision are calculated on a specific debt basis as at the reporting date of the year under review. The contribution to Impairment of debtors (provision for doubtful debt) is recognized as an expense in the statement of financial performance. When under recovery occurs during the financial year an additional contribution for impairment is made at year end.

- a) Consumer debtors (accounts receivable), and other debtors are stated at cost, less a provision for bad debt.
Significant financial difficulties of the debtor and default or delinquency in payments and all debt outstanding are considered indicators to determine that debtors are impaired.
- b) In terms with paragraph 62 of GRAP 104, *financial instruments*:
An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.
- c) Consumer debtors are evaluated at the end of each reporting date and impaired as follows:
Management criteria and assumptions for the calculation of debt impairment:
 - Criteria to follow
 - Original interest rate is used (to work out discount rate).
 - 30 days payment terms.
 - Analysis of accounts per category (billing vs possible time it will take for the amount to be fully collected).
 - The total balance as disclosed is collectable in the next financial year.
 - Methodology followed for the calculation of debt impairment.
 - To look at the billing vs payment for one financial year per category of consumer debtors.
 - To determine the time it takes to collect a month's billed amount.
Per category (in %)

When identifying irrecoverable debts, special focus is applied to the following categories of debtors, although debtor profiling is done for all outstanding debts for a period exceeding 30 days at the reporting date.

14.2 Sundry Debtors

Sundry debtors may be assessed individually like any other debt for impairment, to establish whether any evidence exist that they are not recoverable.

14.3 Sale of immovable property

To be dealt with in accordance with the terms of each Sale Agreement.

15. BAD DEBTS

15.1 Introduction

In terms of Section 97 (1)(d)(ii) of the Local Government: Municipal Systems Act, Act 32 of 2000 as amended and the Local Government Municipal Finance Management Act Section 64(f) the following policy on writing off the bad debts as irrecoverable will apply.

15.2 Preamble

The Municipal Finance Management Act (MFMA) Act 56 of 2003, aims to modernize budget and Financial Management Practices in municipality in order to maximize the capacity of the municipality's to deliver services to all residents, customers and users. It also give affect to the principles of transparency as required by Section 215 and 216 of the constitution.

The Council of the Municipality in adopting this policy on writing off bad debts recognizes its responsibilities as set out in Chapter 9 of the Local Government Municipality Systems Act, Act 32 of 2000 as amended.

15.3 Vision

The vision of the policy is to ensure that the debtors of the municipal Council are not over stated in the books of the Council.

To ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.

To ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.

To ensure that the Council of the municipality makes enough provision for bad debts in the budget.

To ensure that outstanding monies which have been outstanding for a long time after all attempts have been made in terms of recovering them should then be written off.

15.4 Statement

This policy aims to set down principles for the implementation of the writing off of bad debts and the provision for doubtful debts.

15.5 Objectives

The objective of this policy is to provide for:

- The identification of bad debts during the course of the financial year.
- The writing off of bad debts will be actioned where possible if prescribed.
- The proper delegation of powers to the Municipal Manager to write off bad debts up to a certain amount.

15.6 Identification of irrecoverable debts

When the municipality identifies customers whose debts appear to be irrecoverable even after the whole credit control and debt collection process have been followed in terms of trying to obtain payment, then such accounts should be regarded as irrecoverable unless:

Debt collection procedures may be terminated under the following circumstances:

- A balance being too small to recover, for economic reasons considering the cost of recovery.
- Prescription of debt.
- When a debtor with an inactive account cannot be traced by collectors.
- All reasonable notifications and legal actions to recover the outstanding amount have been exhausted.
- The amount outstanding is the residue after payment of divided in the rand from an insolvent estate.
- It is impossible to prove the debt outstanding.
- The outstanding amount cannot be recovered due to an administrative error by Council.
- The schedules setting out particulars of the debt and the reasons for abandonment or write off, together with a written request to approve it to be written off, must be presented to the Chief Financial Officer for submission to the Mayor, FPC, EXCO and Council for approval.

15.7 Writing off of irrecoverable debts

Where debts have been identified as irrecoverable the process to be followed for write off is as follows:

The Chief Financial Officer must prepare a list of all these debts showing the following:

- Consumer details (which is available)
- Irrecoverable amount broken down by service.

- Details of procedures followed to recover the debt. (Which in the case of amounts less than R500.00 it would be confirmed whether a final demand was sent or not, as according to credit control and debt collection policy accounts owing less than R500.00 may not be handed over as it is not financially viable). However with regards to amounts above R500.00. confirmation of hand over must be given and any other relevant documentation.
- This list has been completed, an item to the Executive Committee of Council must be submitted to obtain a Council Resolution to write off these debts.
- Reasons for identifying amounts as irrecoverable must be stated.
- Once Council resolution has been obtained, the Income section must draw journals to write off these amounts against the bad debt provision account.

15.8 Specific write offs

The Chief Financial Officer may submit a report to Council from time to time for specific uncollectable debt transactions such as:

- Liquidations in terms of section 89 of the Insolvency Act, Act 24 of 1936,
- Immovable properties bought back by Council
- Outstanding debts that are older than two years (2) that cannot be recovered during the transfer of immovable property, as in terms of section 118 (1)(b) of the Systems Act, Act 32 of 2000 as amended,
- A specific debt category, and or
- Penalties that have accrued in respect of Government outstanding accounts.

The report for specific write off must contain the following information:

- Full customer details,
- Reasons for each specific write off
- Amount to be written off must be broken down per service, and
- Details of procedures already exhausted in attempts to recover the outstanding amount.

16. ENFORCEMENT OF OTHER LEGISLATIONS & INCONSISTENCIES

- 16.1 When interpreting a provision of these By-laws, any reasonable interpretation that is consistent with the purpose of the Act as set out in Chapter 9 on Credit Control and Debt collection, must be preferred over any alternative interpretation, which is inconsistent with that purpose.
- 16.2 The provisions of any By-laws relating to the control of credit by the Municipality are hereby repealed insofar as they relate to matters provided for in these by-laws, provided that such provisions shall be deemed not to have been repealed in respect of any such Bylaw which has not been repealed and which is not repugnant to these By-laws on the basis as determined by the relevant By-laws.
- 16.3 If there is any conflict between these By-laws and any other By-laws of the Council, these By-laws will prevail.

16.4 Municipal support of the Policy.

Each department of the Municipality will support this policy in terms of their powers and functions.

16.5 Refer to paragraph 6.5.3.

Impairment of Bad debts will be calculated through the financial systems impairment programme which will be reviewed on an annual basis.

16.6 Council may from time to time implement an incentive scheme which may entail writing off of certain debts.**17. DELEGATIONS**

17.1 The Chief Financial Officer be delegated to write off all irrecoverable debts up to the value of R500.00.

17.2 All debts above the value of R500.00 be referred to the Executive Mayor for approval to write off as irrecoverable.

POLICY ADOPTION

This Policy is adopted and approved by the full Council of Alfred Duma Local Municipality for implementation as follows.

Resolution Number _____

Approval Date _____

EFFECTIVE DATE

This Policy shall become effective as from the following Date: _____ .

ALFRED DUMA LOCAL MUNICIPALITY



ACCOUNTING POLICY 2018/2019

INDEX

- 1. BASIS OF PREPARATION**
 - 1.1. BASIS OF PRESENTATION
 - 1.2. PRESENTATION CURRENCY
 - 1.3. GOING CONCERN ASSUMPTION
 - 1.4. COMPARATIVE INFORMATION
- 2. HOUSING DEVELOPMENT FUND**
- 3. INTERNAL RESERVES**
 - 3.1. Self-Insurance Reserve
- 4. PROPERTY, PLANT AND EQUIPMENT**
 - 4.1. INITIAL RECOGNITION
 - 4.2. SUBSEQUENT MEASUREMENT – COST MODEL
 - 4.3. DEPRECIATION AND IMPAIRMENT
 - 4.4. DERECOGNITION
 - 4.5. INCOMPLETE CONSTRUCTION WORK
- 5. INVESTMENT PROPERTY**
 - 5.1. FAIR VALUE
- 6. INTANGIBLE ASSETS**
- 7. HERITAGE ASSETS**
 - 7.1. INITIAL RECOGNITION
 - 7.2. SUBSEQUENT MEASUREMENT
 - 7.3. DEPRECIATION AND IMPAIRMENT
 - 7.4. DERECOGNITION
- 8. IMPAIRMENT OF ASSETS**
 - 8.1. CASH GENERATING ASSETS
 - 8.2. NON-CASH GENERATING ASSETS
- 9. INVENTORIES**
 - 9.1. INITIAL RECOGNITION
 - 9.2. SUBSEQUENT MEASUREMENT
- 10. FINANCIAL INSTRUMENTS**
 - 10.1. INITIAL RECOGNITION
 - 10.2. SUBSEQUENT MEASUREMENT
- 11. UNAUTHORISED EXPENDITURE**
- 12. IRREGULAR EXPENDITURE**

- 13. **FRUITLESS AND WASTEFUL EXPENDITURE**
- 14. **PROVISIONS**
- 15. **LEASES**
 - 15.1 **FINANCE LEASES – THE MUNICIPALITY AS LESEE**
 - 15.2 **OPERATING LEASES – THE MUNICIPALITY AS LESSEE**
 - 15.3 **OPERATING LEASES – THE MUNICIPALITY AS LESSOR**
- 16. **REVENUE**
 - 16.1 **REVENUE FROM EXCHANGE TRANSACTIONS**
 - 16.2 **REVENUE FROM NON-EXCHANGE TRANSACTIONS**
 - 16.3 **GRANTS, TRANSFERS AND DONATIONS**
- 17. **BORROWING COSTS**
- 18. **RETIREMENT BENEFITS**
- 19. **KEY SOURCES OF ESTIMATION, UNCERTAINTY AND JUDGEMENTS**
- 20. **RELATED PARTIES**
- 21. **COMMITMENTS**
- 22. **BUDGET INFORMATION**
- 23. **EVENTS AFTER THE REPORTING DATE**

1. BASIS OF PREPARATION

1.1 BASIS OF PRESENTATION

The financial statements been prepared on an accrual basis of accounting and are in accordance with historical cost conventions as the basis of measurement, except where specified otherwise.

These financial statements been prepared in accordance with Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraph 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

Any difference between the assets and liabilities derecognised and the consideration received, if any, is recognised in accumulated surplus/deficit.

1.2 PRESENTATION CURRENCY

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 GOING CONCERN ASSUMPTION

These financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in the Statement of Comparison of Budget with Actual Information.

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, with the opening balances have been restated accordingly.

2. HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

3. INTERNAL RESERVES

Self Insurance Reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (excess payments). Premiums are charged to the respective services taking into account claims history and replacement values of the insured assets. The balance of the self-insurance fund is ring-fenced within the accumulated surplus/(deficit).

The Council determines annually the amount to contribute to the Self Insurance Reserve.

Claims not fully covered by external insurance are financed from the insurance reserve by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

The municipality operates a self-insurance scheme under the Self-Insurance Reserve, which has a policy that is aligned with the practice in the Insurance Industry. The balance of the Self-Insurance Reserve is determined based on surpluses accumulated since inception.

These surpluses arise from the differences between premiums charged against claims paid and various administrative expenditure incurred.

At the end of each financial year the surplus as computed per above is transferred from accumulated surplus to Self-Insurance Reserve.

The balance of the self-insurance fund is fully cash backed and is invested in a separate call account.

4. PROPERTY, PLANT AND EQUIPMENT

4.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost).

If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

4.2 SUBSEQUENT MEASUREMENT – COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

4.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on cost less residual value, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. Land is not depreciated as it is deemed to have an indefinite useful life.

The annual depreciation rates are based on the following estimated average asset lives:-

DETAILS	YEARS	DETAILS	YEARS
Infrastructure		Other	
Roads and Paving	5 - 100	Buildings	10 - 50
Pedestrian Malls	20	Specialised Vehicles	3 - 20
Electricity	10 - 50	Other Vehicles	3 - 20
Housing	30	Office Equipment	5 - 7
Stormwater	25 - 120	Furniture and Fittings	10
		Watercraft	15
Community		Bins and Containers	5 - 10
Buildings	10 - 50	Specialised Plant and Equipment	5 - 15
Recreational Facilities	10 - 100	Other Items of Plant and Equipment	5 - 15
Security	3 - 5	Landfill sites	15

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

4.4 DERECOGNITION

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4.5 INCOMPLETE CONSTRUCTION WORK

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

5. INVESTMENT PROPERTY

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

5.1 FAIR VALUE

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

6. INTANGIBLE ASSETS

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Servitudes	indefinite
Software	3 years

7. HERITAGE ASSETS

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

7.1 INITIAL RECOGNITION

A heritage asset that qualifies for recognition as an asset is measured at its cost and any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality.

Where a heritage asset is acquired through a non-exchange transaction, its deemed cost is to be measured at its fair value as at the date of acquisition.

7.2 SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, heritage assets are measured at cost less accumulated impairment losses.

7.3 DEPRECIATION AND IMPAIRMENT

Heritage assets are not depreciated but assessed at each reporting date whether there is an indication that it may be impaired.

7.4 DERECOGNITION

Heritage assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset. The gain or loss arising on the disposal or retirement of a heritage asset is recognised in the Statement of Financial Performance.

8. IMPAIRMENT OF ASSETS

8.1 CASH GENERATING ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized in surplus or deficit.

An impairment loss is recognized for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized in surplus or deficit.

8.2 NON-CASH GENERATING ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized in surplus or deficit.

An impairment loss is recognized for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized in surplus or deficit.

9. INVENTORIES

9.1 INITIAL RECOGNITION

Inventories comprise current assets held for sale in terms of land, and consumable items for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

9.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

10. FINANCIAL INSTRUMENTS

10.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

10.2 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale.

Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

10.2.1 INVESTMENTS

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

10.2.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 1 month from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

10.2.3 TRADE PAYABLES AND BORROWINGS

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value, less trade discounts, if applicable, and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

10.2.4 CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of four months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

11. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

12. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

13. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

14. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

15. LEASES

15.1 Finance Leases – The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

15.2 Operating Leases – The Municipality as Lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease.

15.3 Operating Leases – The Municipality as Lessor

Assets leased to third parties under operating leases are included in investment properties and property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned investment properties and property, plant and equipment, where applicable. Rental income is recognized over the lease term.

16. REVENUE

16.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

16.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Fines are economic benefits or service potential received or receivable by the municipality as a consequence of the individual or entity breaching the requirements of laws or regulations.

The full amount of traffic fines issued during the year is recognized at the initial transaction date as revenue in accordance with IGRAP1.

Assessing and recognizing impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears based on historic trends.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, the revenue is recognized as unspent grants, as current liabilities.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

16.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

The Municipality acts as an agent in a principal / agent relationship with the Department of Human Settlement for the construction of RDP Houses. Transfers are made to the Municipality for approved housing projects from the Department of Human Settlement, and the Municipality releases payments from these transfers to the Implementing Agent for construction of RDP Houses. The transfers are recognized as Unspent Conditional Grants and Receipts in the Statement of Financial Position, and the revenue is only recognized in the Statement of Financial Performance once payments to the Implementing Agents are made upon handover of the houses to the beneficiaries.

17. BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

18. RETIREMENT BENEFITS

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

Other post-employment benefit obligations

The municipality provides post-retirement healthcare benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. This benefit has since been restricted to persons 50 years and older of age as at 1 July 2005. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The expected costs of these benefits will be accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the relevant employees.

19. KEY SOURCES OF ESTIMATION, UNCERTAINTY AND JUDGEMENTS

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Trade Receivables

The municipality assesses its trade receivables for impairment at the end of each financial year for non-collectability. In determining whether an impairment should be recorded in surplus or deficit. Judgements are made as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Provisions

Provisions were raised and management used experts to determine an estimate based on information available. Additional disclosure of these estimates of provisions are included in note 4 on Provisions.

Post Retirement Benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of post retirement obligation.

The municipality obtains an actuarial valuation of its post retirement healthcare benefit and disclosure of this obligation is included in note 5 on Retirement Benefit Obligations.

Allowance for Doubtful Debts

On debtors an impairment loss is recognised where there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows. In making the estimation of the impairment, management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39 – *Financial Instruments – Recognition and Measurement*.

Useful Lives of Property, Plant and Equipment

The municipality depreciates / amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when assets are available for use. The useful lives and residual lives are based on industry standards.

Impairment of Property, Plant and Equipment & Inventory

Estimates and judgements are made relating to property, plant and equipment for impairment testing and write-down of inventories to net realisable value as described in accounting policy 9 and 15 respectively.

20. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel are defined as the Municipal Manager, Chief Financial Officer, and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

21. COMMITMENTS

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at the reporting date.

The amount of capital commitments and other operating commitments contracted for at the reporting date, and which have not been recognised as liabilities are disclosed by way of note.

22. BUDGET INFORMATION

The budget figures have been prepared in accordance with the GRAP standards, and are consistent with the accounting policies used for the preparation of these financial statements. The amounts are scheduled as separate additional columns in the Statement of Comparison of Budget with Actual Information. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan (IDP).

23. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Financial Statements.